

THAILAND DEVELOPMENT  
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(Retrospects & prospects...)

## **Retrospects and Prospects of Thailand's Economic Development**

**Thailand Development Research Institute Foundation**

**RETROSPECTS AND PROSPECTS OF  
THAILAND'S ECONOMIC DEVELOPMENT**

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## Introduction

Among most developing countries, Thailand has been performing quite well if one concentrates on her economic growth. The average growth rate between 1970 and 1990 is fairly high at 6.7 percent per annum. Although official macroeconomic data before 1970 has not yet been updated, it is widely agreed that Thai economy also enjoyed considerable expansion as early as since 1950s. Among high and steady growth, instabilities did occur, however. Like other countries, Thailand has undergone several economic shocks, most of them were transmitted from outside the country but some emerged from the internal factors.

To the question upon assessment of the government's role in development process, the answer varies from positive side to negative side, depending on the area in which the questions are made, and also depending on the analysts' philosophical standpoint. For example, while the recent boom of Thai economy pleases most economists and government officials, there remain others blaming for its emphasis on overall growth while leaving the distribution of benefits from growth less attended. The dispute between the two ideologies is, however, beyond the scope of this report. The major objective of this report is to analyze and evaluate the macroeconomic performance of Thai economy since around 1960 from the viewpoint of positive economics rather than from the viewpoint of normative economics.

The paper is divided into five chapters. The first chapter describes the basic structure of Thai economy as well as the development of economic and political thoughts before 1960s. Chapter two describes the Thai economy and policies implemented during 1960-1990. These two chapters aim typically at providing facts for further analyses. More analytical discussions upon industrialization process in Thailand as well as its consequences will be available in the third chapter. The fourth chapter takes a look at the constraints and prospects of future economic development. Included is the global and regional opportunities facing Thailand, the internal fundamental problems which may obstruct further growth, and the recent progress of economic management in Thailand. Together with summary, the fifth chapter mentions some lessons that can be drawn from Thailand case.

Although many evidences or even arguments demonstrated in this report are those initiated in other documents by other analysts, the author still takes responsibilities to all possible errors and mistakes. Also, the views appear in the report need not necessarily correspond to either those of the author's affiliation or the Economic Planning Agency of the Government of Japan.

# **Chapter 1**

## **Thai Economy Before 1960s**

Although remarkable changes in Thailand's economy have just taken place no longer than half a century, it is always advisable to take a short glance to her earlier developments in order to understand Thailand's historical backgrounds and the economic settings prior to the more well-known subsequent developments. The task is covered in this chapter. Some insights are given concerning the major characteristics of primordial Thai economy, the successive political and economic changes and their influences on changes in overall economic ideologies and policies until the early 1960s.

### **1.1 NATURAL RESOURCE WEALTHINESS AND DOMINATION OF AGRICULTURE**

There is no doubt that Thailand, like most other Asian countries located within the Monsoon zone, has long history as an agriculture-dominated nation. The importance of agriculture lied not only in the production structure but also in determining social, cultural and political structures. Large and fertile plain of the country's central region has high potential in growing lowland crops. The mountainous northern region was once an important source of wood products and forest goods, although its forest area has drained away rapidly as farm cultivation expanded. The south region has an equatorial climate which

is suitable to tree crops, apart from the availability of tin and some other mineral resources.

The plentifulness of natural resources and large cultivatable area in the past had some important consequences. Firstly, it characterized the feudal system in the early days of the present dynasty regime as the one concentrated more on property right in man rather than the one relied on property in land. The slave system was developed in order to make assurance to the elites at the time the availability of workers, while the availability of land was not much the problem. However, as population grew faster than increase in cultivated land (since early twentieth century), property right in land became more important and the decline in real wage gave way to the abolishment of slave system in the subsequent years.<sup>1/</sup> Secondly, easiness of opening new land had considerable impact on the underdevelopment of land-saving farm technology (uses of fertilizers and seed improvement, for example) before the World War II period. Instead, labor-saving technology had been more popular as can be seen from the heavy uses of tractors and other farm machines in the more irrigated areas after the World War II period.<sup>2/</sup>

Thirdly, the adequacy of domestic food supply had enabled Thailand to keep herself away from heavy trade with other countries. The self-sufficiency came to an end in 1855 when Thailand was forced to sign the 'Bowring Treaty' with Great Britain. The major content of this

1 The agricultural land/labor ratio increased again in 1960s through early 1970s. This will be shown later in the next chapter.

2 In fact, there are other factors contributing to this technological trend, especially from the political point of view, see Feeny[1982, chapter 4, 5 and 7].



and other following treaties with other western superpowers was that, on import side, Thailand had to open its own economy to foreign goods with across-the-board low tariff rate<sup>3/</sup> and, on export side, had to abolish the state trade monopoly. Since then, Thailand became gradually specialized in producing primary products, especially rice, and was not long an important food exporting country in the region.

The domination of agriculture on Thai economy was thereafter great. It did not only contribute to the largest part of the country's value added, but also to the largest part of the export receipts and government revenue. Rice export grew rapidly since the integration of Thailand into world market in 1850s. Quantity of rice export increased threefold in less than one decade (1857-1864), and more than twentyfold before the Second World War (1857-1940).<sup>4/</sup>

The other major activities of the primitive Thai society was international trade. The importance of trade emerged as early as during the kingdom of Ayutthaya (1350-1767) and was strongly energized since 1850s, when trade was opened to foreign companies according to the Bowring and other treaties. Most trades were inevitably those directly related to agriculture. Foods were exported in exchange of non-food imports. However, while agricultural products were mainly produced by majority of Thai farmers, trade was confined to the royal families and few elite groups. Government's income from trade was always the major source of its revenue. The relationship between the government and the rice producers (farmers) was thus established in the way that the latter

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3 Not exceed 3 percent of import value.

4 Feeny[1982], table 3-1.

supplied exportable rice and other primary goods while the former provided public irrigation services. However, this inter-dependency relationship applied only to farm areas around Bangkok, while the other outlying regions received very little attention from the central government.<sup>5/</sup> Together with other more recent factors that will be discussed later when Thailand's industrialization is considered, this regional disparity of government's budget for agricultural development was another important contributor to the primacy of Bangkok and surrounding areas.

Although the high growth of agricultural sector has been very impressive, it was attained at the cost of extensive deforestation. The major source of Thailand's agricultural growth before 1960s was thus the exhaustion of her national resources rather than a significant progress of production technologies and factor productivities. The clear evidence is the high contribution of land expansion to the increase in agricultural output while yield increase contributed only little. As will be later seen, this trend resumed again after 1960.

## **1.2 CHANGES IN POLITICAL AND ECONOMIC IDEOLOGIES**

The period before 1960s was characterized by several major changes in both the economic and political environments in Thailand. From the political economic point of view, one cannot separate the impacts of either economic or political evolutions from the other.

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5 Biggs and others[1990], p.25-26.

There are always substantial interactions between the two. Here, some brief notes about the sequence and impacts of selected highlights of Thai economic history, since the political transform from the absolute monarchy system to the constitutional monarchy system (1932), will be made below.

A change to constitutional monarchy. The 1932 coup d'etat put an end to the absolute monarch that had ruled the country since its very primitive state. Series of conflicts between the king and the bureaucrats was the major seed of this coup. The conflicts were partly products of the extension of the king's power which was deemed (by the king) at the time necessary to resist the western imperialist threats, and also partly because of the worldwide depression which greatly and adversely effected Thai economy, in general, and the Thai bureaucrats, in particular.<sup>6/</sup> The group carrying out the coup (the People's Party) blamed the previous government for its selfishness in forming the country's economic policies. However, the members of the People's Party had not yet agreed in what kind of economic policy they would pursued after the coup.

State Capitalism. The new government eventually found its own economic policy. State capitalism was adopted as its top prior policy. The idea was generally agreed upon although it was agreed from different motivations of different wings in the party.<sup>7/</sup> Under the state capitalism, the government intervened the economy through establishing

6 Several public officials were dismissed in order to remedy the government budget problem.

7 The two distinctive purposes were the promotion of Thai interest in more profitable enterprises, on the one hand, and to create a self-sufficient economy in preparation for the coming second World War, on the other hand.

many state-owned enterprises which received extensive and intensive privileges from the government. These enterprises rapidly dominated rice industry (exporting and milling), commerce and trade, and manufacturing industries. For example, more than half of rice mill production in late 1930s was in hand of only one state-owned rice miller. The state capitalism influenced the country since late 1930s, reaching its strongest stance after the World War II, and came to an end in late 1950s. Foreign capitalists were strongly discouraged, some were forced to cease operations and some had to sell their businesses to the government. The investment climate was thus very depressed and, when most public enterprises ran into financial trouble or even bankruptcy, Thai economy gradually faced the era of recession and slow economic growth.

One important consequence of the state capitalism under the military rulers was the superseding of Chinese business leaders in place of the former European business leaders. Many presently influential Chinese-Thai business groups formed their economic and political bases during these days through close cooperation with the military leaders. The Chinese business leaders provided financial funds for the establishment of many state enterprises and government companies in return to the government's protection to their businesses. Indeed, although Chinese businessmen seemed to suffered from the discriminative

measures exerted by the government at the beginning<sup>8/</sup>, they later gained benefits.

Private investment promotion. The inefficiency of state enterprises and government companies and the slow economic growth finally prompted a change, which actually took place after the 1957 coup d'etat. The new military ruler, Field Marshal Sarit Thanarat (who himself became a prime minister during 1959-1963) came to power with new economic policy. He adopted the development approach advised by the international agencies (especially the World Bank and the United States). Private investment was resumed, without discrimination against foreigners. A series of investment promotion acts was enacted which provided significant privileges to investments of larger and non-traditional industries.

### **1.3 NATIONAL ECONOMIC PLANNING AND MOVEMENT TOWARD MODERN ECONOMY**

The period between late 1950s and early 1960s was characterized by a rapid transformation of Thailand in both the basic economic ideology and the institutional framework. As far as changes in economic ideology is concerned, Thailand rapidly abated the state capitalism doctrine. The coverage of economic activities tied to state enterprises and government companies dwindled. These governmental enterprises' monopolistic power was reduced or in some case eliminated. The best

8 Originally, the military government protested particularly against Chinese businessmen as they thought that the later were supporting the communist insurgency in accordance to the victory of mainland China's communist party in 1949

example is the abolishment in 1956 of a state-owned rice company, the Thai Rice Co.,Ltd., which dominated rice export since 1938. Earlier, in order to boost rice export, the multiple exchange rates imposed on rice exporters was gave up in 1955.

The second important change was the government's explicit embracement of industrialization policy, through encouraging initiation by private sector. Several decrees aiming at promoting investment were enacted (in 1954,1958,1960, and 1962). A system of import tariff was invented so as to give domestic industries a heavy protection from competition aboard.

Several new government agencies, most of which became afterward important agencies in shaping the country's economic system, were established during this period. Among them are the Board of Investment [BOI:1959], the Bureau of Budget [BOB:1959], the Industrial Finance Corporation of Thailand [IFCT:1959], the National Economic and Social Development Board [NESDB:1960].

The NESDB released the country's first national economic plan in 1961, covering a six years period between 1961-1966. The major objectives of the plan conformed principally to what suggested by the World Bank--providing a proper environment and conditions to stimulate high economic growth for both the short- and long-term. Resources were directed to construction of infrastructures, especially the construction of highway and road system throughout the kingdom. As already mentioned, encouragement of private investment was also the top priority. The Board of Investment granted promotion through tax and

tariff exemptions and other privileges to selected firms meeting the criteria set by the board. The second National and Social Economic Plan (1967-1971) was basically designed to continue the same objective as the first plan, but broadened the coverage of infrastructure construction to the more remote areas.

The two central strategies undertaken under the first two national economic plans--the infrastructures construction and the investment promotion--had great impacts in shaping the succeeding Thai economy. The success of national highway and subsidiary road network in connecting most parts of the country benefitted in particular the agricultural export through reduced transportation cost<sup>9/</sup>. The expansion of agriculture since the early 1960s was in large part attributed to improved transportation. Not only the export demand boosted the production of traditional crops but it also helped introducing crop diversification. Many new crops were developed just to meet the export demand, some of them (cassava, for example) were almost totally exported.

Of course, manufactures also benefited greatly from better infrastructure. Given high protection from import abroad, various industries were finding larger domestic market also through greater access to local market via improving transportation.

The period before 1960s was thus another most important period in Thailand's economic history. It represents a period of searching for

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9 The other major, perhaps more important, motivation of transportation development was for the national security reason, since there was strong threat of communism at the time and most newly constructed roads were destined to the troublesome areas.

the most suitable way of economic development. Many political and economic events occurred during this period had great impacts on the subsequent development since they always introduced a new social and economic rules. The period ended up with the market-orientation under distant guides of the government and U.S.-led international agencies.



## Chapter 2

### Thai Economy and Policies Implemented During 1960-1990

Thailand's backgrounds in both economic performance and institutional development before and during early 1960s formed the initial social settings for the subsequent economic development. In this chapter, a brief descriptive review of Thailand's economic experiences during the three-decades period (1960-1990) will be made. The period reviewed will be divided into three interval sub-periods; the period between 1960-1972, the period between 1973-1985, and the period between 1986-1990. An attempt to analyze in more details Thailand's industrial development strategies during this period will be made in the next chapter.

#### 2.1 STEADY AND STABLE GROWTHS DURING 1960-1972

As mentioned in the previous chapter, Thailand entered the 1960s decade with new economic and institutional frames developed during the second half of 1950s. Under more liberalized conditions for the private sector as well as extensive government's investment in infrastructures, Thai economy fared very well until the outburst of the first oil crisis in 1973. The overall economic growth reached a high level of around 7-8 percent per annum<sup>1/</sup> with a fairly stable price level and manageable deficit on external front. Several factors explained this impressive success, among them the following factors seemed to be most important.

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<sup>1</sup> The officially updated figures on Thailand's national income before 1970 are not yet available, but the high average growth of 1960s is undoubted.

(a) Agricultural Growth. Freer trade regime on rice export apparently induced rapid expansion of cultivated areas. Even though various types of export tax were imposed<sup>2/</sup>, they were not as discouraging to rice export as did the state monopoly on rice trade and the multiple exchange rate system employed before 1960s. Other major crops also expanded significantly during this period. Maize production shown a rising trend since early 1960s through 1980s. Cassava and sugarcane, although they did not reveal much prosperity until early 1970s, was gradually accumulating their comparative advantages. These trends can be seen from Table 2.1 and figure 2.1, which show the planted areas of the four major crops in consideration. The rise of agricultural exports also provided necessary resources required to build the country's infrastructures and enabled the government to pursue its industrial promotion policy without causing either budgetary difficulty or mounting trade deficit.

(b) Industrial Growth. The wider opportunity opened to private industries after the subsiding domination of government's companies was reinforced by industrial promotion policy in gearing up Thailand's industrial expansion. The structure of industrial promotion at its initial stage benefited in particular those firms competing with imports, notably the light consumer industries. The most prominent industrial sectors being promoted were textiles, chemicals, food processing, automobiles assembling, etc.

(c) Foreign Investments and Foreign Aids. Though being already prominent, foreign investors played an even more important role in Thailand after the introduction of industrial promotion policy. Large influxes of foreign capitals flowed into Thailand both in term of direct investments

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2 The most important export tax on rice was rice premium.

and loans. Japanese investments usually involved in manufacturing while European and American investments were more substantial in trading, servicing, engineering, and public works. All these capital inflows strengthened the balance of payment position during the 1960s. In addition, foreign aids was also large owing to the United States' military spending and grants to Thailand, in order to protest the permeation of communism in Southeast Asian region.

(d) Stability in the World Economy and International Financial Market. The steady and stable growth in world economy before the collapse of the gold standard system during 1971-1973 was quite favorable and contributed chiefly to the concurrent stability of Thai economy. The average growth of industrial countries between 1960-1972 was 4.6 percent per annum while the average inflation rate was only 3.4 percent (Table 2.2).

The favorable economic conditions during this period allowed the government to do simple works. Apart from the industrial promotion policies and the public investment in various economic infrastructures, it can be said that the precept of macroeconomic policies of the Thai government during 1960s and early 1970s was generally conservative and accommodative. Monetary policy, for example, was normally used to create and maintain both domestic and external stabilities--the targets in which it seemed to succeed quite well, thank partly to good export performance and partly to stable world economy. Under the Bretton Wood system, nominal exchange rate was kept constant to most major currencies. And when the realignment of world exchange system began to take place in early 1970s, Thai authorities chose to tie its currency (baht) to U.S. dollar, a currency in which most Thailand's trades were made. The constant value of baht with

respect to U.S. dollar implicitly advantaged Thai export as the realignment at that time resulted in weakening of U.S. dollar. This might be another reason why the government tied the exchange rate to U.S. currency.

Fiscal policy was more offensive than monetary policy. The government was running budget deficit due to its engagement to massive constructions of many public utilities and to subsidies given to industrial promotion. During 1960s, the major resources used to finance budget deficit came from foreign loans and grants, particularly those from the World Bank.<sup>3/</sup>

Direct price control was seldom used or at most loosely implemented. This stemmed primarily, on the one hand, from the abundant supply of domestic foods and, on the other hand, from the availability of non-food imports.<sup>4/</sup>

The monetary authorities (the Bank of Thailand) also provided credit, through rediscount facilities, to some certain activities--such as agriculture, some industries, and exporting firms. The policy targeted not only at encouraging production but also at improving income distribution.

## **2.2 ECONOMIC DIFFICULTIES OF 1973-1985**

The 1960s decade of high growth and satisfactory stability of both the world and the Thai economies came to an end at the early 1970s. The gold standard was abandoned and many countries were forced to adopt floating rate system. Meanwhile, there existed also worldwide shortages of

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3 The largest lender was the World Bank, constituting almost half of government's loans during the Second Plan period (1966-1971). The World Bank's loan and the U.S. military aids was estimated to supply around one-third of total capitals required by public sector (Suehiro [1985:p.4-7]).

4 Although the government charged high tariff on imports to prevent domestic import firms, it rarely banned imports.

primary goods, pushing up the world inflation. Situations became much worse when oil prices jumped in 1973. Stagflation prevailed all over the world during 1974-75, deep recession together with exceedingly high inflation. After three years of recovery between 1976-78, the world economy was trapped again by the second oil shock, whose impacts lasted longer until 1982. The world growth rates and inflation rates are shown in table 2.2.

These economic tumults in the external front certainly affected Thai economy. The salient features of Thai economy between 1970 and 1990 are summarized in table 2.3 and figure 2.2. One can also find the dependency of Thai economic performance on the world situation by comparing the movement in both the economic growth and inflation, which are presented respectively in figure 2.3 and figure 2.4. However, it is also true that, although the coincidence between Thai and world economies was general, they were not exactly parallel. Some divergences did occur, reflecting the element of Thai policies implemented during each period.

The following sections thus comprise two components; the highlights of economic phenomena that attributed to the overall fluctuation as well as the pertinent government policies regarding those problems.

### Ups and downs of agriculture

Agricultural sector experienced both the robust time and sluggish time during 1970s and the first half of 1980s. In the first half of 1970s, production of cassava and sugarcane were expanded rapidly (figure 2.1 again) as most transportation network was completed during the Second National Plan period (1967-71), making the potential comparative advantage

in producing these crops realized. The realization process was also accelerated by the worldwide boom of most crop prices in early 1970s. Together with the continued prosperity of the other more traditional crops such as rice and maize, the agricultural sector as a whole enjoyed a satisfactory and steady growth in 1970s.

Situations changed rather drastically since about 1980. The world recession after the second oil crisis lowered demand for Thai agricultural exports. Export price of most major crops declined during 1981-1986. As a result, the total export value of five major crops (rice, rubber, maize, cassava and sugar) reached its peak in 1981 and hardly increased afterward until 1987 (figure 2.5). On the supply side, land expansion--the most important factor of the agricultural growth since WWII--could not be undertaken as easily as in the past. The agricultural land/labor ratio reached its peak in 1978 and continually fell afterward.<sup>5/</sup>

#### The two oil shocks and the twin deficits

The outbreaks of the first and the second oil crises in 1973 and 1979-1980 severely undermined the development path of Thai economy. During the first oil crisis, however, higher prices of imported oil did not hit the country's current account position immediately because export prices of primary products also augmented. The effect of the oil crisis thus emerged in exceptionally high inflation rate (table 2.3 and figure 2.2). Intuitively, the policy response to the crisis was not much seriously undertaken. Restricted money policy was implemented in first half of 1974 and quickly turned to expansionary one in the later half of the same year

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<sup>5</sup> Ammar[1990], page 1.

when general price did not rise further. The government also tried to stimulate the economy through budget deficit during 1975-76. Generally, the government authorities tended to regard the oil crisis as an short-term problem, since no adjustment policies were strongly implemented.

Thai economy recovered quickly during 1976-78. The average growth of the period reached around 10 percent per annum. However, the high growth was associated with high inflation and larger current account deficit. Though the current account deficit during this period was partly due to withdrawal of American military base from Thailand (implying a large drop of United States' spending), but the more important factor was the country's overspending. The expansionary budget deficit adopted between 1975-76 had an important inheritance to the subsequent fiscal years that the structure of public spending (including that of state enterprises) tended to be an overspending one. The government failed to curb down its spending partly because of administrative reason and partly because of its own decision to increase public intervention in the economy. The result was thus the overheated economy and the chronic external imbalance.

Both the price instability and external imbalance existing in 1978 put the country into a much more difficult position, when the second oil crisis took place, than during the first oil crisis. The situations in 1972, the year before the first oil crisis, was much better than those in 1978. Inflation rate was 7.9 percent and current account deficit was already 7.6 percent of GDP in 1978, while the corresponding figures in 1972 were respectively only 4.8 and 0.6 percent (table 2.3). Moreover, there was no helping windfall such as the commodity price boom as during 1973-74. The impact of the second oil shock was thus very severe and the macroeconomic management became extremely difficult. An Economic slowdown

took long time until 1982, recovered during 1983-84, and slumped again in 1985.

To tackle the problem of economic slump and high inflation, the government still relied on expansionary fiscal policy and restricted monetary policy. These policies' success was very limited, however. Public spending succeed only marginally in stimulating the economy. The government's overspending was generally offset by reduced private spending. As shown in figure 2.2, during 1977-1985, the country's current account deficits (the saving-investment gap) were in almost every year produced entirely by public sector.

The large and prolonged external deficits caused tight money and undermined the public confidence. The security of many financial institutions and capital market as a whole was attenuated. Moreover, the high interest rate policy failed to attract foreign capital and thus failed to fix the problem of balance of payment deficit, because the international financial market was also in severe uncertainty. Above all, the competitiveness of the country was not improved satisfactorily.

### **2.3 STABILIZATION AND ADJUSTMENT POLICIES OF 1980s**

The failure of macroeconomic policies in healing the country's chronic deficit on current account and balance of payment and also the increasing indebtedness bestirred some government officials to search for new solutions. However, as the fiscal policy was still a budgetary deficit one, the burden fell almost entirely on the monetary policy. Various traditional monetary measures were implemented, such as the interest rate adjustments, credit control, moral suasion. These policies had very little



success, which is not surprising because their command could never reach the government activities.

There was a small adjustment of the exchange rate in late 1978. But the movement was actually small, being unable to cure the existing problems.

The chronic deficit eventually called for an immediate and strenuous remedy efforts. The attempts at stabilizing and restructuring the Thai economy came not only from the domestic awareness but also from the propellant of the World Bank. The World Bank granted two special loans for Thailand's economic restructuring (SAL1 and SAL2), which were implemented during 1981-1983. The loan conditions required active adjustments in five areas, i.e., fiscal policy, agriculture, industry, energy, and institutional development.<sup>6/</sup>

The exchange rate was also adjusted twice in 1981 from 21 baht per U.S. dollar to 23 baht per U.S. dollar or 8.7 percent devaluation of baht against U.S. dollar. Though the devaluation rate was not substantial but was more meaningful than that adopted in 1978. There were two additional reasons for the 1981 depreciations. Firstly, it prevented Thai exports from increasing value of U.S. dollar, which took place since around 1979-1980 (figure 2.6). Secondly, the authority want to desist the speculation of the exchange market.<sup>7/</sup>

1981 was also the first year of active export promotion. Having been cited as the national target since the third National Economic and Social Development Plan (1972-77), the export promotion schemes were just

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6 The evaluation of SAL1 and SAL2 can be found in Phichitr and others [1987].

7 The 'daily fixing' system, which was undertaken since 1978, was another factor encouraging speculation.

actually effective in this year when the government reduced most export taxes, rice premium, and liberalized other barriers to export.

Unfortunately, all these restructuring measures were not accompanied by a vigorous correction in fiscal stance. Government failed to depress its budget overspending. Instead, the private sector showed some progress, as can be seen from figure 2.2 that the overall current account deficits were lower than its public-induced component in 1982, 1984 and 1985, which implicitly meant that there were some surpluses incurred by the private sector. Although there was a sharp decline of deficit in 1982, it was mainly due to the very slow growth of both agriculture and non-agriculture production which led to import cut, rather than success in raising export. Gloomy world condition as well as persistently high proportion of government investment to GDP were the major obstacles. The large and prolonged deficits of current account caused a rapid accumulation of the country's external debt, reaching its peak (as measured in proportion to GDP) in 1985 (table 2.3).

Another series of adjustment measures was thus necessary. This was endeavored since late 1984. Two important macroeconomic strategies were finally achieved.

The first strategy was the switch of exchange rate regime to a 'basket system' in November 1984; the value of baht has been since then tied to a basket of major traders' currencies, rather than fixed to a single US dollar. The effective devaluation rate at the first day of the regime switch was 14.8 percent. More interestingly, the basket system also gives a 'manageable room' to the monetary authority (the Bank of Thailand) in secretly managing the baht value through changing the weight structure of currencies in the basket. Through this way, the monetary officials at

the Bank of Thailand actually managed the exchange rate by increasing the U.S. dollar's weight in the basket after its sharp decline since late 1985. Albeit implicitly, this could be counted as the third 1980s' important baht devaluations with the first two explicitly announced in 1981 and 1984.

All the above exchange rate measures have one common target, promoting export. The weakened value of baht has actually played the important role in boosting Thai export since 1986.

The second strategy was the effective control on public spending and installation of discipline of external debt creation by the central government and the state enterprises. A 'zero-growth' fiscal policy was adopted in 1986 and 1987, freezing the government's overall real spending not to exceed the previous year level. The newly created external debt by public sector was controlled by setting up an upper limit in each year. Even though government agencies or state enterprise may be able to bargain for their borrowing plans, the overall amount of new created debt must be under the bound. Intuitively, one could expect strong opposition to this belt-tightened policy from both the bureaucrats and some politicians. It is intuitive because Thai bureaucrats has been for long time forming influences in both the political and administrative concerns, and many politicians were also enjoying political advantages by means of large public spending. In general, this was true, as being evident from the persisting budget deficit for almost a decade before the reform. The reform in 1984-85 was politically possible because there was concurrently a restructuring of political power.

In addition to the macroeconomic measures, another area recording substantial progress since 1985 was the export promotion schemes. The tax cuts on agricultural export were continued and rice premium (the heaviest

export tax on agriculture) was completely given up in 1986. The liberalization of agricultural trade was due partly to export promotion scheme and was partly aimed at alleviating farmers' suffer from downward trend of export prices during 1981-1986.

Other attempts in promoting exports were also made solicitously. Many export incentives, both financial and non-financial ones, were invented. The government and private sector cooperated for the first time in enhancing Thai export' share in existing markets and in seeking new markets. A joint committee consisting of both the government personnels and private business leaders was established, opening for wide range of discussions and cooperation.<sup>8/</sup> Government-related export procedures were eased. Quota bonus were granted to exporters who succeeded in finding new markets.

## **2.4 ECONOMIC PROSPERITY DURING 1986-1990**

After more than a half-decade of economic difficulties and strenuous management of macroeconomic policy--both the stabilization and adjustment policies, Thailand has since 1986 entered her historic era of prosperity. The economy, which passed a recovery in 1986, expanded at an exceptionally high rate of more than 10 percent per annum during 1987-1990. The initial growth engine was stimulated by export demand beginning since 1986, which kept on growing at very high rate during 1987-90, although some sign of slowdown was already seen in 1990. Investment demand was closely following export demand, growing rapidly since 1987 and still performed quite well before the explosion of military conflict in Persian Gulf.

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<sup>8</sup> The Joint Public/Private Consultative Committee (JPPCC).

Private consumption was not grow very fast during the first three years of current boom (1986-88), even though its growth rates were higher than during the slump period, but began to accelerate in 1989 and 1990. The initial slow growth of consumption reflected partly its sacrifice for export demand and also indicated that Thai people tended to save more in response to accelerated increase of investment returns. Public spending also just recently shown rising trend in 1989 because of belt tightened policy adopted since 1986. Price level was rather stable, in spite of high growth, as there was not threat of high inflation from abroad.

Several factors were underlying the recent economic impressiveness. The most important ones may be as follow.

1. **Favorable change in the external environment.** Since 1986, there was a sharp decline in oil prices. Meantime, major currencies realignment starting in December 1985 also greatly benefited Thai exports as baht value, mostly fixed to US dollar, weakened steadily against the yen and major European currencies.
2. **Relocations of investment from Japan and Asian NIEs to Southeast Asia, including Thailand.** Because of increasing Yen and also rapid transition of most Asian NIEs away from producing labor-intensive manufactured goods, investment in these cheap-labor Southeast Asian countries became more attractive.
3. **Success of adjustment policies and export promotion measures.** Effective control of public expenditure and external debt creation since 1986 helped mitigate the chronic financial problem facing Thailand during 1979-1985. Reinforced by strong increase of export, more resources wer available for the current boom of private investment.

4. **Political stability of 1980s.** There was relatively more political stability during the premiership of General Prem Tinasulanon between 1980-1988. Only two failed coup d'etat in 1981 and 1985 were attempted. Although several cabinet reshuffles and parliament house dissolves did occur, most political disputes were solved democratically. This political peacefulness considerably supported steady economic development and encouraged investment<sup>9/</sup>.
5. **Recoveries of major crops' price.** After suffering from lowering world prices during 1981-1986, most major crops' price picked up in 1987, and remained on high track till the 1990/91 planting year. Benefits from external price improvement have reached farmers substantially, as agricultural exports are not subject to high tax and tariff as they did in the past. The most obvious evidence was the unchanged distribution of income over 1985-1988, after its ever-worsening trend over the past three decades, in spite of rapidly increased income of the relatively-rich exporters and industrial entrepreneurs.

With these favorable economic conditions, the government's policies are now shifting to the assurance of growth sustainability and other long-term and more fundamental problems such as income distribution improvement, regional development, preparation of human capital. An emphasis is also put on social development as indicated in the coming Seventh National Economic and Social Development Plan.

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<sup>9</sup> The present Coup has not been considered yet. Hopefully, its economic impacts should be minimal.

## Chapter 3

### Thailand's Industrialization

One obvious trend in the development of Thailand is that industrial sector has been gaining increasing importance compared to the used-to-be dominating agriculture, when considered from either its relative size in total production or trade. The growth rates of value added from manufacturing production during 1970-1989 averaged to 9.5 percent per annum, more than double that of agriculture (table 3.1). The value added originated from agricultural sector was surpassed by that of industrial sector in 1978, and by manufacturing in 1981 (table 3.2 and figure 3.1). Currently, the industrial sector constitutes about one-third of the country's total production, while the agriculture constitutes only 15 percent. Thailand is thus no longer an agricultural economy as she was in the past, but a country at the initial stage of full industrialization.

Yet, there is a chronic problem of Thai industrial development, the industrial sector always fails to absorb a significant size of employment into its thriving activities. About two-third of Thai labor force still engages in less thriving and even falling agricultural production. The gap between per capita value added and income between these two sectors (agriculture versus industry) has been widening almost without any period of exception. This represents one of the most critical problem of structural imbalance in Thailand, which relates to many other fundamental problems such as high income inequality, regional disparities, segmented labor market, educational imbalance. These related fundamental problems will be mentioned to in the next chapter. In this chapter, emphasis will

be put on the characteristics and consequences of Thailand's industrial development.

### 3.1 THE EARLY STAGES OF THAI INDUSTRIES

When compared to other more developed Asian countries such as Japan or South Korea, Thailand is a late-comer in term of industrial development. The wealthiness of natural resources and the abundance of food supplies had lessened the necessity of Thailand in producing her own industrial goods in order to trade for basic foods and goods.<sup>1/</sup> The only prevailing non-agricultural activities were handicraft works of household appliances and cultivating tools. These activities did not employ high, or even intermediate, production technics and were usually not commercialized. The manufacturings were basically part-time activities, during the dry season when farmers did not have much farm works.

Thailand began her first prominent and full-time manufacturing in rice milling industry, which spread throughout the country after the specialization in rice production and rice export brought about by various trade treaties beginning in 1855 (see chapter 1). The consequence of these trade treaties was the rapid expansion of Thailand's international trade volume. Industries developed during this period were those relating to agricultural trade activities; rice milling, teak industry, shipping, banking and insurance, etc. These industries were under controls of three distinguished economic groups--the European trading houses, the state and bureaucratic officials, and the Chinese-Thai businessmen.

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<sup>1</sup> This was evident by sparse trade among regions in primitive Thai society.



Since its initial formation in mid nineteenth century, Thai industries had underwent various shocks, both economic and political ones. The consequence of the 1932 constitutional revolution was the discouragement of foreign investments and promotion of state-control economy. This economic nationalism ideology lasted till late 1950s, although its content changed occasionally during the period between 1930s to 1950s. The outbreak of the Second World War provided great opportunity for the Chinese-Thai business groups to develop their economic bases via occupying the room left by the European and Japanese economic giants. The coup d'etat of late 1950s brought an end to the state capitalism and introduced the industrial promotion policy that encourage private investments, both foreign and local investments.

The early development of industries in Thailand before the era of industrial promotion policy had several distinct characteristics, some of them remain true through the present days.

Firstly, although most industries were trade-related, but very few were related to exporting of manufactured products. Rather, they concentrated on either exporting agricultural products and other resource-based materials (teak, tin, for example) or importing finished and manufactured consumer products from abroad. Only few other industries had also developed, such as manufacturing of cements, construction materials, and some simple chemicals. These industries had a common feature that their products used local materials intensively and were basically non-tradable goods.

Secondly, foreign investments played significant roles in Thailand's industrialization by participating in almost all industrial activities, in both forms of wholly-owned enterprises and joint-ventures

with Thai investors. The only exception was during the period of state intervention (1946-1957), and just after the intervention was abolished foreign investments resumed almost instantaneously.

Thirdly, since most industries developed dependently on international trade, their firms' locations and activities tended to cluster within and around Bangkok, the only city possessing all facilities suitable to external trading; big harbor, administrative center, the country's best communication system, mobilized labor supply, etc. The development of Thai industries was thus parallel with the enlargement of Bangkok, making it the only primate city over all other cities in Thailand.

### **3.2 INDUSTRIAL DEVELOPMENT SINCE 1960s**

Since late 1950s, when the promotion of private-led investments began, the industrial sector has been expanding very rapidly. At the same time, the various themes of the investment policies, which can be best represented by the underlying industrial promotion acts, have been gradually shaping the structure of Thai industrial sector. The industrial promotion acts set certain criteria those are to be met by eligible firms. Changing the criteria thus influences directly the advantage and disadvantage among industrial sectors.

Table 3.3 summarizes the contents of promotional measures provided by each acts. Two points can be drawn from the table. First, for eligible firms, the granted privileges tend to be more and more advantageous. For example, the first industrial promotion act in 1954 gave incentives only to import tariff of factors used in production. The later promotion acts extended the coverage of privileges to include also business tax and

corporate income tax. Besides, period of the tax exempt or tax reduction were extended and were made more flexible. The 1977 act also allowed personal income tax exemption on dividends paid by promoted firms.

The second point is the increasing privileges given to export industries since the 1972 industrial promotion act. Under all the promotion acts before 1972, only export sales by promoted firms were granted either tax exempt or tax reduction, but since 1972 these fiscal incentives has also been applied to imports of raw materials and major components used in producing exported commodities.

Another new element in 1972 act is the establishment of 'investment promotion zone', firms located within which receive more privileges in addition to those privileges normally received according to their promoted status (see details in table 3.3).

The promotion incentives and the rapidly declining monopoly of the state-owned companies since 1960s helped creating new industries and firms whose sizes were larger than most traditional firms. The founders of these firms were typically those formerly engaged in merchant business, particularly the importers and domestic distributors. Foreign firms also quickly came to Thailand to either establish their affiliates (mostly European and American investors) or to join local firms establishing various joint-ventured industries (mostly Japanese investors).

During 1960s, the productions of these newly-established firms were mainly to substitute imports. Although they used higher production technology than the traditional firms, the technology used was generally not much advanced. In addition, because of tax incentives given to imports of inputs and raw materials, many firms tended to employ technology based heavily (almost entirely) on imported inputs. In other words, the

technology and production line was entirely imported, there were no adaptation of technology to be more suitable to local abundant inputs and raw materials. As a result, although imports of finished goods were reduced, imports of machineries and intermediate products were accelerated (Pranee Tinakorn, p. 179-180 and table 6). The growth of industrial production thus did not help reducing total imports as the import-substitution strategies suggested, it only changed import structure. The promoted industries that reflected this symptoms were, for example, textiles industry, automobile assemblers, and pharmaceuticals.

The awareness to this weakness of the past promotional policy was one of the reasons why the government added the export promotion measures to the 1972 investment promotion act. Unfortunately, it was not until mid 1980s that these export promotion measures were fully realized. The persistent slump of world and Thai economy during 1970s and the first half of 1980s were the major obstacles, since the whole industrial sector itself suffered the economic slowdown. Foreign investors were reluctant to expand their investments and some even withdrew or sold their equities to local partners.

The decline of foreign capital after the oil shocks and the subsequent sluggish economic conditions brought about another industrial restructuring in term of ownership structure. Local industrialists took this opportunity in enlarging their industrial coverages in places of their former foreign partners, with financial support from local commercial banks. The commercial banks, especially the few largest ones, also began to expand their empires to various industries by establishing their own firms, but these firms were generally much smaller than those of the former industrial groups initiated during late 1950s and early 1960s. The

cooperation between the local industrial groups and the local commercial banks has formed a kind of industrial-financial conglomerates which emerged to be competitors of the foreign firms.

Since 1986 until present, Thai industries has entered a new period of rapid growth. This time, the features of growth is quite different from that of 1960s in the sense that it is the exporting industries that have been driving the overall industrial growth. Although several factors explain this impressive performance (as indicated in section 2.4), the realization of export promotion privilege initiated since 1972 is another important factor. Figure 3.2 shows that the export value of manufactured products jumped dramatically since 1986, resulting in a rapid rise of their share in total export. More interestingly, the structure of manufactured exports has also changed remarkably. Several new products have been making rapid progress in exporting. These products are, for example, precious stones and jewelry, footwears, integrated circuits, furnitures, and artificial flowers. The general difference of these new export goods from those of the import substitutes during 1960s and 1970s is their higher labor-intensiveness and less dependency on foreign technology. This is a promising phenomenon, and will be discussed in more details in the next chapter.

In sum, the emergence of labor-intensive export industries together with the rise of independent local entrepreneurs against foreign entrepreneurship suggests an industrial restructure during 1986-87 in term of the dominant capital and also in term of industrial structure. However, since 1987, foreign investors rapidly came back to join the prosperous export opportunity.

### 3.3 CONSEQUENCES OF INDUSTRIAL DEVELOPMENT IN THAILAND

There are numerous consequences of industrial development in Thailand. First of all, it is a matter of fact that, however heavily criticisms have been made on the government's industrial policies, the industrial sector has undeniably shown the very good and steady growth performance and has increasingly contributed to the overall economic growth during the past three decades. The only possible and solid ground for the critics is that, the outcomes could have been better both to the country and the industrial sector itself if the government had conducted its industrial policies some other ways.

In this section, emphasis is made on the unpleasant consequences of Thailand's industrialization. It is arranged so not because of the author's prejudice against industrial development, but because the positive side of the industrialization is so apparent that restating about its is somewhat redundant. On the other hand, exploration of its negative consequences can be useful to the formation of further policies to correct them. Thus, the following points concerning the impacts of Thailand's industrial development undertaken since 1960s are based on both the observable facts and also on the criticism basis.

1) The introduction of investment promotion policy in late 1950s was the major stimulus to the formation and initiation of most of the present largest industries and also industrial business groups in Thailand. A careful investigation of the years these industrial groups founded their core industrial firms clearly justifies this argument.<sup>2/</sup>

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2 Suehiro, op.cit., p. 4-57.

2) The BOI's prerequisite criteria of the minimum amount of investment to be eligible for promotion had obviously benefited large firms or large business groups. The criteria follows the belief that large investments were essential for the promoted firms in developing themselves to a level that the economy of scale be realized. However, this policy adversely and seriously effected small firms existing before the advent of industrial promotion policy, and discouraging further developments of such firms.

3) Since only a few large firms have been promoted. The new number of promoted firms has made them viable in making business in a small domestic market like Thailand<sup>3/</sup>. In many industries, the markets were oligopolistic without strong competition, although the situation became better when market size expand gradually. The lack of fierce competition among domestic firms is probably the most relevant explanation of relative inefficiency of promoted Thai firms in comparison to the successful models of Japan during that country's import substitution period.

4) Another unpleasant consequence of the promotion given only to large investments was the laggard technological development. As mentioned earlier, almost only former merchant businessmen started manufacturing production, since they were the only groups being capable of collecting adequate capital to meet the BOI's requirement. In contrast, small manufacturers at the time, who directly engaged in production and had more enthusiastic attitude to technological development, hardly received government's privileges. The merchant-originated manufacturers typically

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3 Although the total population size is not (and was not) too small, but because of very unequal income distribution, the number of populations that are capable of buying high value-added manufactured products is quite limited. Moreover, these people tend to prefer imported consumer goods than the domestically produced ones.

relied on foreign technologies channeled through foreign partners, while they themselves played their experienced roles in firm and financial management and product distribution. Therefore, transfer of production technology has been invariably slow and limited, not only because of the foreign firms' unwillingness to commit the transfer but undeniably also because of the lack of Thai manufacturers' enthusiasm. By the same logic, the adaptations of technology are very limited. There has been few weak evidences that technologies were adapted to be more suitable to local resource abundance. Apart from the factor price distortion in favor to capital-intensive technologies induced by industrial promotion policy, the less importance the local entrepreneurs gave to technological independence should bear another responsibility.

5) The subsequent impact of technological dependency of Thai industries is the entailed imports of machineries, major components, and raw materials. The contribution to country's trade balance has thus not as fruitful as that suggested by the basic idea of industrial development. As mentioned in the previous section, this embodied burden of industrial growth was quite evident during the import substitution era (1960s and 1970s). More interestingly, even during the current export boom, in which more independent industrial structure has been expected, imports of capitals and machineries are still high and increasing. As a result, Thailand is again experiencing the rapidly increasing trade deficit in machineries and raw materials (figure 3.3). This reflects the fact that the current investments, consisting also of the rapidly resuming foreign investment since 1987, still rely insistently on imported technology.

6) As far as the locational distribution of industrial bases is concerned, it is quite obvious that most industrial firms tended to locate



within Bangkok and surrounding provinces. This has been one of the major causes of the problem of regional disparity. Given the fact that the contribution to the national income of the industrial sector is growing while its labor absorptive capability has not yet shown much progress, and the fact that rural-to-urban migration (especially migration to Bangkok) could be limited from the problem of increasing urban congestion, it is difficult to expect any significant improvement in regional disparity in the near future.

7) From the basis of resource allocation, the typical accusation frequently directed to industrial development policy is that it induced distortion of relative factor price, generally between capital and labor. Prices of imported machineries, components and intermediate goods have been artificially lower than their shadow prices, thus discouraging their domestic productions. Although there are some firms obtaining government's incentive in producing intermediate products or capital goods, their proportion in total promoted investment is small relative to those producing finished consumer products. Labors explicitly suffer from underemployment due to distortedly lower labor demand as firms tend to use capital-intensive technologies which are encouraged by subsidized imported capitals.

According to traditional trade theory, price distortion brings about inefficient resource allocation and thus reduce the social welfare. The only justification for this sort of industrial promotion policy is the necessity to correct market failure in the context that market operation may lack the capability of realizing potential comparative advantage the country has in certain industries. Through this room, appropriate measures can help shorten the time needed for such dynamic comparative advantage

realization. As far as the industrial promotion policy in Thailand is concerned, however, the roles of the government in accordance to the realization process seem to be hardly justified. It is not quite clear that the failure to implement more appropriate policies (the existence of these more appropriate policy is not too far from reality when considering the success of the NIEs countries) is due to the government's lack of capability, or due to the government's lack of intention.

8) The final point concerns the recent changes of philosophical background of industrial promotion policy. The excellent export performance of labor-intensive products is so impressive that it is introducing changes in basic philosophy of industrial development policy to be more promotive to labor-intensive export industries. Indeed, there have been some proposals suggesting the reform of the Board of Investment (BOI) to be an export promotion agency rather than the industrial promotion agency. Secondly, promotion of regional industrialization is gaining increasing attention. Privileges are to be given to those industries planning to locate their sites outside Bangkok. Generally speaking, these two recent movements are welcome. The problem remains on how to assure that meaningful measures in achieving these goals be invented and appropriately implemented. Again, intention and capability to understand the problems of the government authorities are the most important and necessary factors.

In summary, although the evaluation of Thailand's industrialization is quite positive in term of growth performance of industrial sector, the development strategies are subject to strong and variable criticisms, in the sense that various fundamental problems are by-products. 'Growth without development' is the most common description given to such kind of

'industrial development'. However, there seems to be basic changes of industrial policy which has to be closely looked at, and further evaluations are needed.

## Chapter 4

### Constraints and Opportunities of Future Developments

In the preceding three chapters, some succinct insights of Thailand's economic development since her early stage have been discussed. One distinct feature of development is that, supported by steady availability of resources extracted from her abundant natural resources, huge amount of labor force, and sizable fertile area, and by means of fairly well-planned policy packages focused on long-term development, Thailand has been rapidly restructured from agricultural economy to an industrial one. Economic growths in agricultural sector not only strengthened the overall economic growth but also provided necessary savings and foreign exchanges that helped establishing the country's industrial base, most remarkably through the government's industrial promotion policies. The industrialization policy started paying off after the government turned to exports promotion policy, the advantage of which has been realized impressively when the world economy became favorable to Thai economy since mid-1980s. Industries, in general, and manufacturing, in particular, thus steadily and rapidly replace agriculture as the major productive sector and major source of foreign earnings.

In short, one can say that during the past three decades, Thailand has been strengthening her own economy through steady transformation from natural-resource-based economy to higher-skilled economy.

But, can Thai economy perform as well as in the past in the future world of increasing uncertainty and fiercer competition? More importantly, how effectively should economic managements be initiated and implemented

amidst the rapidly destroyed natural resources and the less advantageous external conditions? Obviously, answering these questions is not an easy task, but it is useful to explore the conditions Thailand is subject to, and to evaluate constraints and opportunities of future development. It is the main focus of this chapter.

The chapter begins with exploration of the current environments as well as the outlook at both the global and regional level. These global and regional conditions are a predetermined environment to which Thailand has to adjust herself. The consideration of the internal factors will follow in the ensuing section. The focus goes to various fundamental problems that could retard development, and the recent attempts and progress of economic management to overcome those constraints.

#### **4.1 PROSPECTS ON THE GLOBAL AND REGIONAL ENVIRONMENTS**

There are two general trends being developing in the current world economy. The first trend is the high probability of worldwide economic slowdown, which put an end to the longest period, beginning in 1982, of steady economic growth after the World War II. The United States is probably the first economy confronting the economic difficulty. However, even though the slowdown of world economy is inevitable, there can be various concerns about its pace and the associated degree by which each countries are going to pass through. It is not quite untrue to argue that one common view widely agreed upon is that there is minimal possibility of immediate and severe shocks that could startle the whole world overnight, like those of the first and the second oil shocks. The rational and fairly efficient operation of the world oil market during the threatening period

of the Gulf Persian conflicts, which developed later to a war, can be an evidence of improvement of world economic mechanism in dealing with experienced international problems. Also, the termination of the Cold War and the widespread democratization in various socialist countries are breaking the political wall that used to block international economic cooperations. Although the full benefit of gains from trade between these ex-socialist countries and the more developed capitalist world is not likely to appear in the near future, its on-going development can hopefully help preventing the worldwide recession. However, there remains also some perils to the future international economic cooperation. The sluggish negotiation of the current GATT round might end up in severe trade war and destructive protectionism. In such case, no country can avoid the economic pain and the world as a whole may be accelerated to recession.

The second trend in the world economy is the gradual, but persistent, change of economic poles from Western economies to Japanese and some other Asian economies. Prolonged surpluses in trade and service balances of these countries, especially Japan, now result in their expanding assets and entrepreneurship throughout the world. The capital flows associated with their investments are playing increasingly important role in determining the growth structure among regions and among countries within each region. Admittedly, the direction and amount of international funds are not solely determined by the situations or internal motivation prevailing in the source-of-funds countries, but depend also on the prospect of the destined economies. In other words, both factors in the countries of origin and factors in the countries of destination together influence the capital flows.

From Thailand's position, the importance of the second trend (regional capital flows) seems to outweighs that of the first trend (the global economic outlook)<sup>1/</sup>. Several reasons account for this argument. Among others, the following points could be made.

Firstly, Thailand's manufactured exports still account for a very small proportion of the total world manufactured trade (only 0.1 percent in 1987)<sup>2/</sup>, any mild stagnation of world economy could have minimal effect on Thai export. Indeed, past evidences already show that Thailand could enjoy steady and high export growth rates amidst the gloomy international trade condition.

Secondly, although there are more alternative regions in the world for rapid development in the future, the most attractive for the time being is still the Asian (Eastern and Southeastern in particular) region, to which Thailand belongs. The long period of sustainable growth and better preparation for future development are the region's major advantages. Should the world economy slow down, the region is likely to be able to maintain its economic sustainability. Thailand, in particular, may be in better position relative to those Asian NIEs because she has not yet seriously confronted problems arising from rapid economic restructuring (labor dispute, for example) as those countries are facing.

The third reason is the importance of foreign direct investment to Thai economy. Historically, the economic development of Thailand can never be put apart from the umbrella of foreign capital. This fact is particularly true in the case of industrial development. As already mentioned in the previous chapter, this is also true in the present days.

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1 Although the two trends are not independent to one another, for simplicity, they are considered separately.

2 Dapice and Flatters [1988].

Large amounts of foreign investment has been continually entering Thailand to enjoy the prosperity of the current export boom.

Fourthly, high dependency of Thai industries to foreign technological reinforces the importance of foreign investment in course of Thailand's economic growth.

If the above interpretations are correct, the changing pattern of capital flows among regions and within the region represents the most important external factor effecting Thailand. As insisted earlier, the flows of international capitals are still expected to favor the Asian region against the others, the concern then confines only to the capital flows within Asian region in general and the capital flows toward Thailand in particular.

As far as the regional economic environment is concerned, one prominent trend during the recent years is the rapid rise of Southeast Asian countries to be one of the most attractive investable zone in the world. In addition to the traditional capital flows from Japan and Western economies, there has been also newly emerging flows from the Asian NIEs<sup>3/</sup>. In Thailand, the most remarkable investments belonging to this countries group are those from Taiwan and Hong Kong. The rising labor cost and the increasing protection the industrial countries direct to Asian NIEs are the major forces driving them to find new production bases in Southeast Asia including Thailand. The pressure to investment aboard also reveals a more general sign that the Asian NIEs' economy has been stepping into a level where structural problems induced by rapid growth becomes serious and

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3 South Korea, Taiwan, Singapore, and Hong Kong



further restructuring is needed<sup>4/</sup>. Thailand and other ASEAN countries can use this opportunity to develop and catch up with the NIEs.

The above consideration of global and regional environment facing Thailand is certainly far from complete. In addition to these very broad trends, there remains other factors requiring further discussion. Technological change is one of the most important factors capable of reshaping the trade and development pattern in both the regional and global level. How rapid a country can catch up with those more advanced countries depends largely on its capability in acquiring, adapting, developing, and assimilating the most suitable technologies for its own economy. In this frontier, Thailand apparently requires much more efforts in sparking sufficient progress.

## **4.2 THE CONSTRAINTS FROM FUNDAMENTAL PROBLEMS**

The past development yields not only positive impression on economic growth but also negative by-products. The unpleasant consequences of industrial development discussed in the previous chapter are examples. Many of these problems turned to be more and more serious and, if not corrected, can be major constraints to Thailand's future development. This is particularly true in the 1990s, provided that most external favorable conditions during the later half of 1980s are fading away. The effective exchange rate of baht ceased weakening since late 1988, and the global economy may be about to be recessive.

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<sup>4</sup> See Park [1991] for more details of South Korea case.

Some of these fundamental problems and their relevances to the course of development process will be pointed out and briefly discussed here.

Production imbalance, labor market segmentation, and education problem

The existing imbalance of employment structure, between agricultural and non-agricultural sector, when compared to the production structure (or their value-added shares) is one of the most serious problem in Thailand. Currently, the per capita value-added in non-agriculture is almost ten times of that in agriculture<sup>5/</sup>. One of the closest associated problem is the problem of segmented labor market. Generally speaking, the labor market in Thailand has been well divided into formal and informal market, the labor categories attached to each of which have quite distinctive characteristics (educational background and level of nonfarm skill are major differences, and also other related socio-economic factors). The two labor groups are separated almost exclusively. The sharp different situation between labor shortage and real wage increase in skilled and white collar labors experienced currently, and labor abundance in rural areas is the obvious indication of the segmented labor market.

Clearly, the lack of sufficient labor mobilization between sectors and between markets imposes an obstacle to long-term economic growth and stability, and also limits the variety of industrial development strategy. Breaking down the wall between the two segments (formal and informal markets) requires a package of policies targeting at both the supply

5 The agriculture contributes around 15 percent of real GDP in 1990 while covers around two-third of total labor force. Although the employment figure between sectors may be somewhat misleading, since substantial amount of farm workers also participate in non-farm activities occasionally and this participation rate is expected to rise, but the overwhelming proportion of agricultural employment is still valid.

aspects and demand aspects of labor market. On the supply side, encouragement of higher education, especially the high-school level, and provision of educational facilities, must be adopted without any hesitation. More important measures are on the demand side, however. Several studies found that the major determinants of low enrollment rate above the compulsory elementary education (about 30 percent in 1987) are the demand factors. Lack of parents' positive conception upon economic return from higher-than-elementary education, stemming from limited job opportunity in the formal labor market, has been playing the major role of undereducation among Thai, especially the rural Thai. The problem then turns to the labor absorptive capability of industries and other non-agricultural activities (such as services). As pointed out in the previous chapter, the industrial development tended to promote capital-intensive industries. Not only these firms required less labors but also confined to the medium- to high-quality labors. The situation has been worsening through the concentration of industries within and around Bangkok, causing high labor demand in these areas while very limited job opportunity avails in remote areas.

If the above analysis is correct, then the right policies in solving these related problems should be the promotion of high-paid job opportunity outside the greater Bangkok area in general, and the promotion of regional industrialization in particular<sup>6/</sup>.

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<sup>6</sup> In fact, the development of modern agricultural sector is another solution. But since the prospect of agricultural products are subject to low income elasticity and persistent subsidy programs in developed countries, the massive development plan on agricultural production has been somewhat less suggestive. Also, the idea may be politically difficult to implement.

### Regional disparities and Bangkok's primacy

The significance of regional disparity problem was covered partly in the preceding subsection, including also the statements of relevant policies. However, the disparity between greater Bangkok and the other regions does not confine only to the industrial concentration. Bangkok is also the center of international trade, government administration, education, infrastructures, financial facilities, and almost all other indications of modernization and development. Actually, the degree of Bangkok's primacy over other urban areas is exceptional by international standard<sup>7/</sup>.

How the primacy of Bangkok effects the country's long-term competitiveness and sustainable growth is not an straightforward issue. In principal, this would not be much harmful as long as this capital city has a capability of servicing most economic transactions at a relatively low cost, as it proved to do quite well in the past when one considers the high economic expansion on the aggregate level. However, there has to be a certain point where such low-cost services are no longer feasible, mainly resulting from increasing congestion of the big city. After that point is reached, industrial firms (especially the larger firms) tend to move their sites to more distant areas. Of course, these areas will not be too far from Bangkok so that the firms still receive some certain beneficial aspects of big city's incumbencies. This trend is quite evident in Thailand during the recent economic boom in the second half of 1980s. Increasing number of firms have been moving outside Bangkok, causing land prices in various provinces around Bangkok rapidly accelerated.

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7 Biggs and others [1990], p.24.

What just described above is the 'natural' trend. As far as the policy aspect is concerned, there are several remaining questions. Firstly, how can the government support this trend? Secondly, is this trend of enlarging metropolitan area acceptable or, alternatively, is it efficient enough for a very long-term development point of view? Unfortunately, to answers both questions requires more in-depth analyses and very careful comparisons to models in other countries, and is thus beyond either the scope of this report or the ability of the author. However, intuitive thinking suggests that it sounds better to develop more than one cities rather than to enlarge only one city just to face the similar problems arising from the congestion in the future. The practicability of this policy requires strong drives in both economic and political elements, which has not been yet foreseeable right now.

#### Worsening income distribution

The problems of production imbalance, labor market segmentation, education imbalance, and regional disparity, altogether result in highly unequal distribution of income in Thailand. Moreover, the evidence (table 4.1) shows that the distribution of income has been persistently worsening over the whole three decades of development since 1960s<sup>8/</sup>. The failure to improve income distribution is not only in itself a kind of policy failure in achieving one basic economic target, but it also has certain impacts on the sustainability of future economic growth and development. Highly unequal distribution usually results in small domestic market. On one hand, the smallness of domestic market renders the country to be less

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<sup>8</sup> However, it should also be noted that the high rate of economic growth (especially in the agricultural sector during 1960s and 1970s) has helped reducing poverty incidence substantially in spite of worsening income distribution.

preventive to short-term external shock such as cyclical slowdown of world economy. On the other hand, it also hurts the development of domestic industries through decelerating, or even prohibiting, either the benefit from economy of scale (if competition is allowed among many firms in small market) or the industrial efficiency (if monopoly or oligopoly is permitted). In such case, industrialization must relies entirely on export-oriented policy without significant benefit from developing within sizable domestic market. In many cases, the restriction of small domestic market is capable of explaining the failures of import substitution strategy in developing a self-dependent industries.

#### Technological dependency

As pointed out earlier, Thailand's industrial development taken so far has one prominent aspect that it is highly dependent on imported foreign technologies, especially the production technologies. There are at least two weak points of technological dependency with respect to the resource allocation. Firstly, if imported technologies are fully adopted in their original forms without meaningful adaptation to local resource abundance, the inefficient uses of resources are certainly the outcome. This is, by and large, Thailand's experience. The second point is that technological dependency usually induces burden on external balance, through high import of technologies, most remarkably those embodied in machineries and capital goods. Again, this is the case in Thailand. Currently, there is also increasing threat of more effective claims on intellectual property rights and technological know-how from the United States that might result in the increase of technological payments in the future. The policy response to this issue should be exerted in two time

frames. In the short-term, any policy measures that effect the relative factor price, such as the industrial promotion policy, should take into account the impacts of the artificially distorted relative factor prices on their abuses. Theoretically, technologies or combination of technologies that use factor inputs in accordance to the existing resource abundance yield the highest social welfare. However, this argument derives from the static comparative advantage theory. In case of dynamic comparative advantage, government intervention may justifiably distort the relative factor price to stimulate intensive use of selected factors (say, capital) which have high potential of future productivity improvement under promotion received. But this sort of price distortion should be done marginally and gradually, and should also impose only on selected industries of high potential comparative advantage.

#### Inadequate domestic saving

Another chronic problem in Thai economy is the very low national saving rate. The immediate consequence of this low domestic savings is the country's high reliance on foreign savings if continual growth is to be maintained. Although this is not much harmful to the growth performance as long as sufficient external funds are available and the debt burden is under control, but it may not be as much welcome if the amount of foreign investments are so high that the ownership structure of domestic assets is persistently running out of indigenous residents' hands<sup>9/</sup>. Moreover, depending on foreign financial sources may cause serious economic

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<sup>9</sup> However, the welfare evaluation of foreign direct investment in this issue is much more complicated if the question is generalized to cover the whole world economy rather than tied to national welfare of any specific country. It is also difficult to evaluate the very long-term cost-benefit of assets' structural change.

volatility during the time of either external or internal disturbances, within such conditions, the foreign capitals may flight away. This will necessitate painful adjustments afterward. To these respects, stimulus of more enthusiastic national saving behavior is essential. Unfortunately, Thailand has not much progress in this area. In fact, during 1986-1988 Thailand had an impressive saving ratio stemming from larger proportion of reinvestment people spent out of their increasing income (from export and economic boom) in response to high perceived profitability, but the trend was revised again since 1989 when private consumption began to rise, probably from wealth effect. Low saving rate was reinforced by high investment level in pushing the current account deficit to be on rising trend during 1989-1990. This happened in spite of the rapid financial deepening, as can be seen from steady increase in ratio of M2 to GDP. This may mean that the transformation from informal saving to formal saving so far has not significantly helped increasing the overall saving. The improvement of financial instruments and financial institutional development to encourage saving have to be continued.

### **4.3 PROGRESSES OF THAILAND'S ECONOMIC MANAGEMENT**

The fundamental problems of Thailand mentioned so far are the important impediments to future development. As discussed earlier, the external conditions for Thai economy considered so far are likely to be favorable, at best, and not harmful, at worst. The remaining problem thus lies upon how the internal problems and constraints be dealt with or, alternatively, how policies can be most properly (or properly enough) initiated and implemented to utilize this external opportunity.



Fortunately, the issues are not totally ignored, as can be seen from wide discussions and constant push to the government to solve the problems, and every governments usually recognize the situations. However, it seems to be not until the decade 1980s that substantial efforts were commenced. Surpluses in public budget beginning in 1987 offer the government an opportunity to give up various market interventions that used to be major sources of budget financing. Another force that is rousing greater attempts to solve the country's fundamental problems is the spirit of export promotion which has been the top prior policy since the export boom in mid-1980s. Any policies and measures that can encourage export are quickly and widely implemented. Among those measures, the promotion of market mechanism is perhaps the foremost strategy, with the understanding that higher competition can enhance the efficiency of resource allocation and will finally end up in better comparative advantage of Thai exports.

Generally speaking, the idea of increasing resource mobilization through market mechanism is fairly accepted. More specifically, the most stable way to raise Thailand's national welfare is the arrangement of domestic resource use to be most suited to external environment. Export-led development is gaining justification since it coincides with more efficient use and higher mobilization of resources which are necessary conditions to assure competitiveness in the world market.

The following sections summarize Thailand's experiences of export promotion and liberalization, the recent progresses, and the on-going measures aiming at encouraging market mechanism.

### Export promotion strategies

Thailand has generally adopted the economic ideology of export-led strategy since the 1970s but has more meaningfully pursued since the early 1980s. The government's principal export promotion measures conducted so far can be listed as below.

1) Relaxation of export tax and tariff system so as to reduce or eliminate tax burden on major export items, especially on the agricultural exports.

2) Adopting more active exchange rate policy to (a) prevent the possible deterioration of Thai exports' competitiveness from US. dollar revaluation (the 1978 and 1981 devaluations) and (b) to increase the flexibility of exchange rate (1984).

3) Reordering the export activities to be on the top priority to be eligible for promotional privileges from the Board of Investment (BOI).

4) Streamlining official procedures relating to export activities.

The efforts were quite payable that they played a considerable role in bolstering the robust export performance during the second half of 1980s, which led to the overall economic boom in the subsequent years. As pointed out in the previous chapter, one feature of the latest export boom was the success of various new labor-intensive manufactured goods, whose productions have been thereafter expanded rapidly. Although these new products are gaining benefits from the BOI promotion (most remarkably via tax incentives) but, taking into account that the BOI privilege structure is still capital-encouraging, market mechanism seems to play more important role in boosting export. Instead of on competing for BOI privileges, which resulted in low labor absorption rate in the past, Thai manufacturers are increasingly interested in seeking the most suitable way in utilizing the

country's huge labor supply. The rapid rise of jewelry, artificial flower, footwear, assembly of integrated circuit, as the major export items is reflecting this trend. This is certainly a promising movement that can assure more dynamic and more efficient allocation of resources, which will lead the country to the least-cost productions and better competitiveness.

#### Rationalizations of energy price controls

The government also registers a substantial progress in relaxation and rationalization of energy price control. Wholesale and retail prices of petroleum products were controlled and heavily intervened after the two oils crises in 1970s. The government used to set the entire chain of petroleum price from import price to retail price, using the 'oil fund' as the buffer fund. The price structure during 1978-1985 was set in favor of diesel and liquid petroleum gas (LPG) by taxing more on gasoline. This policy quickly proved to be a mistake. It incurred social loss from widespread misuse of petroleum products such as the transformation of automobile engines to be able to use lower-price LPG and diesel. Moreover, having energy price controlled was likely to cause problem during the time of rising world price, because raising domestic retail price always aroused public protest and occasionally ended up in political disorder. The suppressed domestic prices were harmful to the economy through private overspending and augmenting external deficit. This really happened during the first half of 1980s.

To solve the problem, the government first rationalized energy price by reducing price difference between gasoline and other petroleum products in 198 . However, control on wholesale and retail price is maintained. Just recently (May 1991), oil companies were allowed to set

their own retail prices while the government still control the wholesale price, which is also expected to be deregulated in the near future. When the relaxation of whole price system of petroleum products are completed, market mechanism will play the most efficient role in determining the proper energy use and free the oil price issue from political influence.

### Financial deregulations

Although Thailand's financial sector has been quite successful in supporting the economic growth throughout the entire period of past development, its functioning was circumscribed to some restrictions. Until recently, the government set ceilings to both the deposit and lending interest rates. All activities involving foreign exchange were strictly controlled by the Bank of Thailand. Financial sector was regulated for the reason that it had not been so deepened as to prevent itself from causing damages to the overall economy.

However, the financial sector has developed very quickly during 1980s. One indication is the rapid rise of M2/GDP ratio from 38.5% in 1981 to 67.4% in 1989. During the same period, competition among financial institutions increases despite the fixed number of commercial banks. Finance and security companies as well as other institutions such as the insurance and leasing companies emerges as the new competitors to the commercial banks. The development of stock exchange market also adds more varieties to the capital acquisition channels.

The government thus decided to gradually deregulate the financial market. In February 1991, the ceiling interest rates on deposits were abolished while the ceiling rate on loan interest was lifted up to annually 19% in order to provide higher flexibility of interest rate determination.

Interest rates are thus now determined by demand and supply of financial liquidity with satisfactory level of competition among financial institutions.

The most interesting development in financial market is the deregulation of foreign exchange. Thailand declared the adoption of the IMF's article no. 8 in May, 1990, and the 'second round' deregulation in April, 1991. Depending on the amounts involved, controls on foreign exchange transactions were either abolished or relaxed. Exports are free from any exchange restriction, except those exceeding a certain amount (500,000 baht) are still subject to minimal authorization. Imports are totally deregulated. Capital inflows for investments in all forms are permitted freely, including the investment repatriations. Foreign currency accounts are allowed to be open with commercial banks, making possible the management of foreign exchange to avoid exchange risks. Details of the two foreign exchange deregulations are shown in Annex.

#### Reduction of domestic industries protection

Another important measure to promote market competition is the reduction of protection given to domestic industries. In July, 1991, the government has for the first time in almost thirty years lowered the tariff rate on imported personal cars and pickups, together with the allowance to import these cars. Immediately, the effective rate of reduction on domestic retail prices of car averages to 15-20%, and prices are expected to be even lower in the near future when competition from imported cars begins. Tariff rate on import of computers and components has just been reduced, from averaged 30% to only 5%.

The aim of the policy is to stimulate domestic manufacturers to improve their production quality with lower cost, if they wish to compete with foreign producers. The successes or failures of these industries are more determined by market mechanism, rather than by protection and promotional privileges from the government.

#### Lessening government's economic role and privatization

Along with all the above measures in promoting market mechanism within private sector, the government has since mid 1980s maintained its low involvement to economic activities through reducing public spending to GDP ratio, from 19.7% in 1985 to 14.7% in 1989. During the same period, the government's revenue increased from 15.8% of GDP to 18.3% of GDP. This resulted in rapid increase of budget surplus and public treasury fund. The government is now the biggest saver in Thai economy, and helps reducing pressure on current account deficit induced by strong private domestic demand. This budgetary stance is also expected to continue in order to calm down the country's overheated economy.

Privatization is another area in which efforts have been made continually. However, the form of Privatization is not the transformation of public enterprises to private ones (which is objected quite severely from state enterprises' labor union). Instead, private companies are invited to invest, in place of state enterprises, in various huge infrastructures and public utilities. Good examples are the concessions given to C.P. group of companies to expand telephone network, the Canadian Lavalin's elevated train project, and the Hopewell's mass transit project.

#### 4.4 THE DESIRED LONG-TERM DEVELOPMENT POLICIES

The progress of market-orientation policies discussed above is quite promising for the future of Thailand. However, this does not mean that the government can overlook the necessity of paving the way for long-term development. Market mechanism usually fails to function properly when dealing with the country's long-term benefits in the areas in which economic externalities prevail. The discussions of Thailand's fundamental problems in section 4.2 suggests that there remain three areas that require immense improvement--the regional development and human resource development. Both areas are the major concerns in long-term development and can hardly be corrected or improved solely by the private sector. Regional development requires a big push from the central government not only by allocating much higher expenditure outside Bangkok but also by rearrangement of political and administrative structure in favor of regional provinces. Development of human resources requires huge investments to provide students with basic skills that will be their assets for further on-the-job trainings in private sector. Obviously, these long-term development issues need well preparation and efficient arrangement of Thai government.

## Chapter 5

### Summary and Lessons from Thai Economic Developments

As a country of considerable success in some aspects of economic development, the study of Thai economy and her economic policies is certainly worthwhile. Many lessons can be drawn from Thai case, although some of them should not be applied directly to other developing countries, but they can provide better understandings of how certain economic or political policies affect the economic performance of the country with natural resources, historical, and political backgrounds similar to Thailand. Whereas the conclusions or notices drawn from Thai case are necessarily specific to Thailand, it is hopeful that some general observations could be found and are useful for making comparisons or even recommendations to other economies.

The chapter begins with summary of factors underlying Thailand's economic growth success. Then, the weaknesses of Thai development are mentioned. The lessons from Thai case are drawn in the final section.

#### 5.1 THE FACTORS OF SUCCESS

Among other things, the following factors seem to be the major contributors to the high and steady economic growth of Thailand:-

a) Thailand is a country of abundant natural resources and sizable fertile areas, which are very suitable for various agricultural activities. Through utilizing this resource richness (mostly via land expansion),



agricultural growth and production diversification have been a strong base of the country's economic growth.

b) The high agricultural productivity rendered the country strong competitiveness. Agricultural export earnings was providing financial resources and surpluses that helped stabilizing the economy and financing subsequent industrialization.

c) Industrial and service sectors have been developed rapidly under the government's support through investment promotion policies. Foreign investments and entrepreneurs are welcomed and protected.

d) The promotion of private investments undertaken for more than three decades has contributed to the strength of the private sector. Thai resident entrepreneurs were (and are still) highly responsive and flexible to either external shocks or changes in government policies. This dynamic nature of private sector is one of Thailand's most valuable assets.

e) The dynamism of Thai entrepreneurs has enabled them efficiently exploit the export opportunity whenever available, especially since mid 1980s when both external and internal conditions were favorable.

f) The macroeconomic management of Thai government is in general supportive to the stability and high growth. Conservative monetary policies have been fairly successful in maintaining both internal and external stability (inflation and balance of payment), except during the two oil crises, of course. Before mid 1980s, fiscal policies were frequently expansionary ones.

g) Finally, Thai society has a distinctive nature that bolster both the economic and political stability: various interest groups tend to peacefully compromise and share benefits. Also, racial conflicts have maintained at minimal level and hardly obstructed economic development.

## 5.2 THE WEAKNESSES OF DEVELOPMENT

Although quite successful in term of economic growth, the development of Thai economy has a number of flaws, as mentioned to in the preceding two chapters. The essences of these negative aspects of development may be summarized as follows.

a) Although Thai governments were appropriately preparing physical infrastructures during 1960s and 1970s, they put too less efforts in developing human resources which are equally essential for long-term development, especially during the transit period from an agricultural country to industrial one. The past development policies were discriminating in favor of the accumulation, mostly through importing, of physical capitals without adequate expenditures on massive education. The shortage of right labors in certain industries is therefore the major problem nowadays.

b) The underdevelopment of human resources has been fueled by policies on both the industrial and agricultural sector. Through most investment promotion acts, industries were motivated to use more imported capitals, a few highly-skilled labors, and very few unskilled labors. On the other hand, expansion of agricultural lands was practically allowed (though forest encroachment is illegal), and hence retaining huge amount of agricultural labors requiring little education. The results are segmentation of labor market, scant rural-to-urban migration (except to Bangkok), and low demand for higher education among farmers.

c) While Thai entrepreneurs are quite successful in developing firm and financial managements, they seem to be relatively weak as far as production technologies are concerned. Thai economy is thus dependent on

various forms of imported technologies, which has been making Thailand a chronically deficit economy. Although insufficiency of engineers is one reason, lack of enthusiastic attitude toward technological development should be more relevant. The progress in this area is very little so far.

d) The regional imbalances on both the economic and political fronts has caused persistently rising income inequality during the entire period of development. Urban areas, Bangkok in particular, are much more advanced and modernized than rural areas in almost all aspects.

### **5.3 SOME LESSONS FROM THAI ECONOMIC DEVELOPMENTS**

The indications of strong and weak aspects of Thailand's economic developments in the above two sections intuitively lead to some lessons from Thai case. As mentioned at the beginning, specific locational and historical backgrounds could make many of the above considerations of both the positive and negative aspects of development applicable only to Thailand. However, a number of general conclusions can also be made.

Firstly, the success of economic development in which dynamism of private sector is spirited up along with governments' minimal but prudent guidances is once again warranted by Thailand experience. The rapid growths of agricultural production and exports since 1960s, and of manufacturing exports in 1980s, have been driven primarily by flexibility and prompt response of private sector. Meanwhile, the governments maintain their roles of providing suitable conditions for long-term growth--through preparation of economic infrastructures at the beginning and loosely monitoring private sector thereafter--which have been accompanied by efficient managements to restrain economic stabilities.

Secondly, the experiences of Thailand concerning the government support for long-term development indicate that public policies should be properly divided between investments in physical infrastructures and investments in human infrastructures. Thailand gave more weight on physical side--making her economy expanded rapidly so far--but its growth sustainability is increasingly challenged by constraints of human resources. Besides, this problem has close linkage to other fundamental problems: employment imbalance between traditional and developed sectors, regional and income disparities, labor market segmentation. All these problems are the negative sides of Thai development, which can obstruct the country's future growth. If more attention had been given to human resource development earlier, economic growth would have been less impressive but, at the same time, more stable and balanced growth without creating social conflicts would have been the result.

The third lesson from Thailand concerns the importance of how a country manage its technological capability and the government involvement in this area. Without proper guidance via strong incentives and subsidies from the governments, the development of technologies--one the most important public goods in most developing countries--may not be most beneficial to the country. In Thailand, production technologies in industrial sector have been mostly adopted via imported capitals, but have been hardly adapted to local environment and assimilated to the community. The adaptation and assimilation of technologies require indigenous efforts and initiation from governments. Failures of doing so would result in either laggard industrial development, or foreign capital dependency and chronic external deficits as in case of Thailand.

Fourthly, Thailand's experience shows that wide openness to world economy has proved to be one of the most valuable asset of any countries desiring to increase their economic dynamism and responsiveness. Although Thailand has the problem of capital dependency as just mentioned to, it is owed to improper technological management of the country and is not the problem of openness *per se*. Rather, trade and capital transactions with the world market engenders better allocation of resources and arouses higher disciplines of domestic entrepreneurs through higher competition from abroad.

The fifth lesson involves the industrial promotion strategies. Although promotions of certain industries are necessary in order to make those industries viable at their commencements, but the promotional measures should be carefully designed and implemented, and their effectiveness should be repeatedly evaluated. The necessary condition for policy success is that the designs of promotional measure must not create prevented monopoly within a small domestic market. The absence of competition from foreign products prevents the industries from efficient production, while the smallness of domestic market prevents the industry from maturation and economy of scale.

It is widely known that Thailand in 1990s is entering the economic era of market-orientation and deregulations. Obviously, more interesting lessons can be drawn from this new economic managements. The outcomes will be compared to experiences of other countries in order to reach more general rules of economic development.

TABLES

FIGURES

AND ANNEXES

Table 2.1 Planted Areas of Major Crops

Year	Rice (mill.Hect)	Maize ----- (Thousand Hect.)	Cassava (Thousand Hect.)	Sugarcane	Kenaf -----
1950	5.54	36.2	na.	53.9	5.0
1951	5.96	41.4	na.	70.1	14.1
1952	5.37	45.0	na.	73.8	10.7
1953	6.17	47.7	na.	82.6	9.6
1954	5.56	53.0	na.	95.8	5.9
1955	5.77	55.5	na.	103.5	8.5
1956	6.02	82.2	39.2	121.4	17.4
1957	5.08	97.0	38.4	128.5	12.5
1958	5.74	126.7	44.2	131.7	20.3
1959	6.07	199.8	62.6	148.0	44.5
1960	5.92	285.6	71.5	157.8	140.3
1961	6.18	306.6	99.4	124.2	275.2
1962	6.59	328.0	122.7	101.8	113.9
1963	6.60	417.9	140.0	149.1	153.1
1964	6.54	551.8	105.0	162.2	218.4
1965	6.55	576.8	101.9	141.3	384.2
1966	7.43	653.3	130.2	124.5	530.2
1967	6.66	662.1	140.8	149.6	348.3
1968	7.23	670.9	170.6	181.9	253.6
1969	7.58	679.7	190.9	118.2	377.3
1970	7.49	828.8	224.5	137.9	421.0
1971	7.53	1,018.9	221.4	139.5	462.6
1972	7.14	997.0	326.2	181.3	472.2
1973	8.04	1,147.5	436.0	258.6	434.2
1974	7.65	1,239.8	480.0	309.6	403.8
1975	8.52	1,296.0	594.4	391.0	326.2
1976	8.14	1,284.6	692.3	499.0	163.7
1977	8.55	1,205.4	846.9	566.6	256.5
1978	9.35	1,385.8	1,165.1	510.4	320.5
1979	9.10	1,524.6	845.8	436.8	226.9
1980	9.10	1,433.6	1,160.0	468.3	170.9
1981	9.02	1,567.4	1,270.4	617.1	186.6
1982	8.99	1,679.0	1,236.2	583.2	217.1
1983	9.30	1,688.3	1,368.3	577.1	214.9
1984	9.27	1,816.8	1,404.8	547.8	163.5

Source: Office of Agricultural Economics.

Figure 2.1  
Planted Areas of Major Crops (ml.hect.)

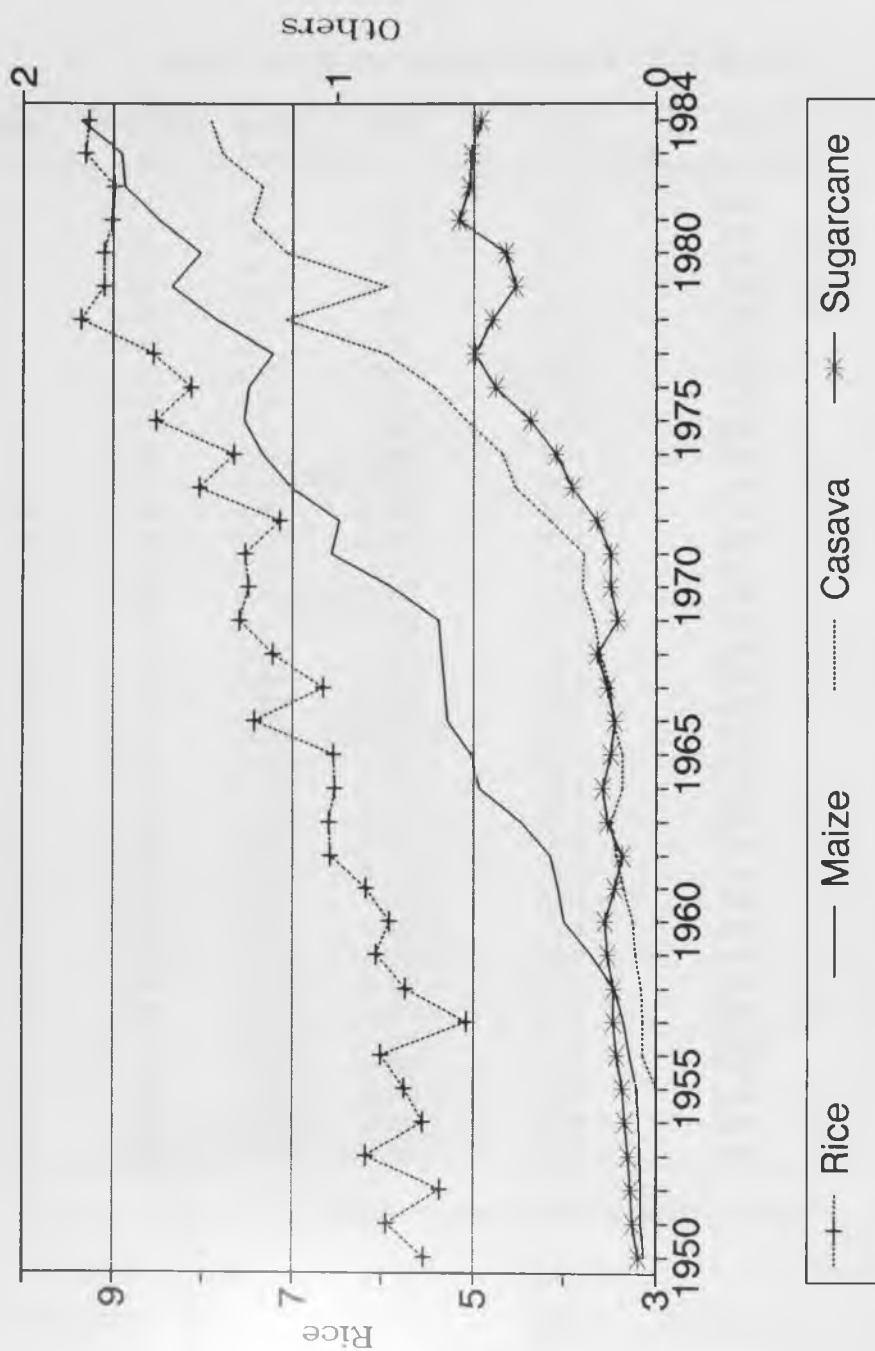




Table 2.2 World Economy 1960-1989 (%)

Year	World		Industrial Countries	
	Growth	Inflation	Growth	Inflation
1960	na.	na.	4.5	1.8
1961	3.1	na.	4.3	1.9
1962	4.6	na.	5.1	2.5
1963	5.0	na.	4.7	2.6
1964	6.3	4.4	6.1	2.4
1965	5.6	4.8	5.3	3.0
1966	5.6	4.9	5.3	3.4
1967	3.3	4.2	3.5	3.0
1968	4.8	4.4	5.1	3.9
1969	5.7	5.0	4.9	4.7
1970	3.9	6.0	2.8	5.6
1971	3.8	5.8	3.2	5.2
1972	5.1	5.7	5.1	4.7
1973	6.0	9.4	5.7	7.7
1974	1.8	15.3	0.7	13.3
1975	0.7	13.6	-0.3	11.2
1976	4.9	10.7	4.7	8.4
1977	4.1	11.0	3.6	8.6
1978	4.2	9.4	4.1	7.3
1979	3.7	12.4	3.3	9.2
1980	2.2	15.7	1.3	12.0
1981	1.7	14.4	1.5	10.1
1982	0.3	12.7	-0.2	7.6
1983	2.4	12.8	2.7	5.2
1984	4.9	10.6	4.9	4.7
1985	3.8	10.2	3.6	4.1
1986	2.8	7.2	2.8	2.4
1987	3.6	9.2	3.5	3.0
1988	4.4	13.1	4.5	3.4
1989	na.	17.1	3.5	4.5
1960-65	4.9	na.	5.0	2.4
1966-70	4.7	4.9	4.3	4.1
1971-75	3.5	10.0	2.9	8.4
1976-80	3.8	11.8	3.4	9.1
1981-85	2.6	12.1	2.5	6.3
1986-89	3.6	11.7	3.6	3.3
1960-72	4.7	5.0	4.6	3.4
1973-82	3.0	12.5	2.4	9.5
1983-89	3.7	11.5	3.6	3.9

Source: IMF, International Financial Statistics (1989).

Table 2.3 Salient Features of Thai Economy 1970-1990 (%)

Year	Economic Growth	Inflation Rate	Openness Ratio	CA/GDP	Pub.S-I/GDP	Debt/GDP	Inter. Reserve	Exchange Rate
1970	6.6	0.8	27.7	-3.5	-4.6	10.3	8.6	20.9
1971	5.0	0.4	28.2	-2.4	-5.2	10.7	8.2	20.9
1972	4.1	4.8	30.8	-0.6	-5.5	11.0	8.6	20.9
1973	9.9	15.6	33.0	-0.4	-3.0	8.4	7.6	20.6
1974	4.4	24.3	40.2	-0.6	0.2	8.5	7.2	20.4
1975	4.8	5.3	35.9	-4.1	-3.7	9.1	6.7	20.4
1976	9.4	3.8	38.0	-2.6	-6.6	9.5	6.5	20.4
1977	9.9	7.6	41.3	-5.5	-5.7	10.1	4.9	20.4
1978	10.4	7.9	39.5	-4.8	-5.8	11.5	5.6	20.3
1979	5.3	9.9	46.7	-7.6	-6.0	14.8	5.0	20.4
1980	4.8	19.7	48.9	-6.4	-8.6	17.7	3.9	20.5
1981	6.3	12.7	48.2	-7.4	-7.8	20.5	3.3	21.7
1982	4.1	5.2	42.7	-2.8	-9.0	23.3	3.8	23.0
1983	7.3	3.8	41.7	-7.3	-6.6	24.1	3.0	23.0
1984	7.1	0.9	42.7	-5.1	-7.9	26.0	3.1	23.5
1985	3.5	2.4	43.9	-4.1	-8.2	34.1	3.8	27.1
1986	4.9	1.9	43.6	0.6	-6.6	33.8	4.8	26.3
1987	9.5	2.5	51.1	-0.7	-2.9	32.3	4.7	25.7
1988	13.2	3.8	59.8	-2.8	0.9	25.8	4.3	25.3
1989	12.2	5.4	64.8	-3.7	2.6	23.5	5.0	25.7
1990e	10.0	6.0	68.8	-6.0		23.2	na.	25.6
1970-75	5.7	10.6	34.6	-2.0	-3.7	9.6	7.8	20.7
1976-80	7.8	8.9	44.1	-5.7	-6.5	12.7	5.2	20.4
1981-85	5.7	4.4	44.3	-5.4	-7.9	25.6	3.4	23.6
1986-90	9.9	3.8	60.3	-3.1	-1.5	27.7	4.7	25.7
1970-90	6.7	7.2	51.2	-4.0	-5.0	18.5	5.4	22.5

- Note: 1. Openness ratio = % (export+import)/GDP.  
2. CA/GDP = % Current Account Balance/GDP.  
3. Pub.S-I/GDP = % Public Saving-Investment Gap/GDP  
4. Stock of debt includes only long-term debt.  
5. Inter. Reserve = International Reserve/Import per month.  
6. Exchange Rate = Baht per US dollar.  
7. Everage economic growth rates and inflation rates are calculated by regressing over time.

Figure 2.2  
Salient Features of Thai Economy

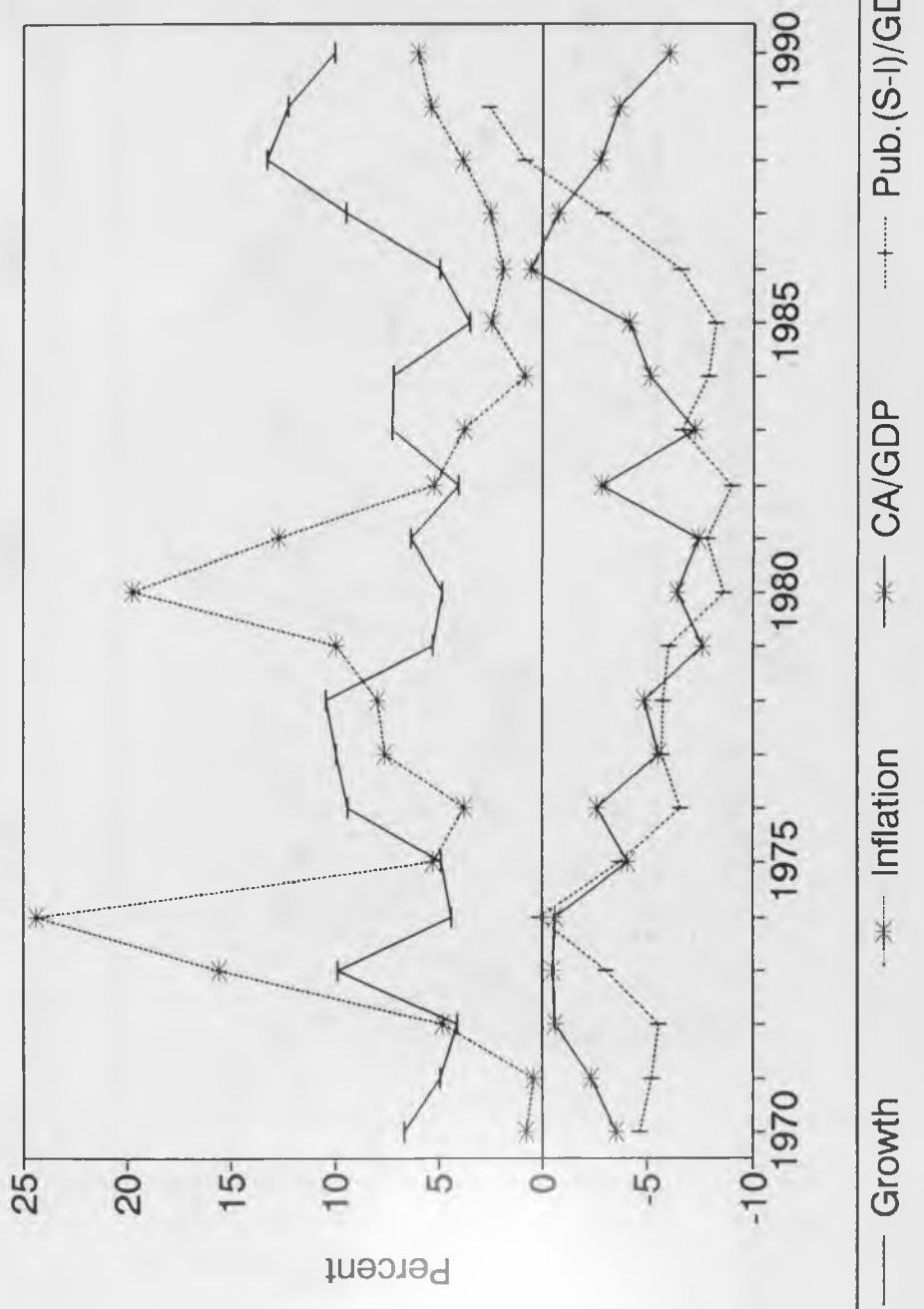


Figure 2.3  
Thai and World Growth Rates

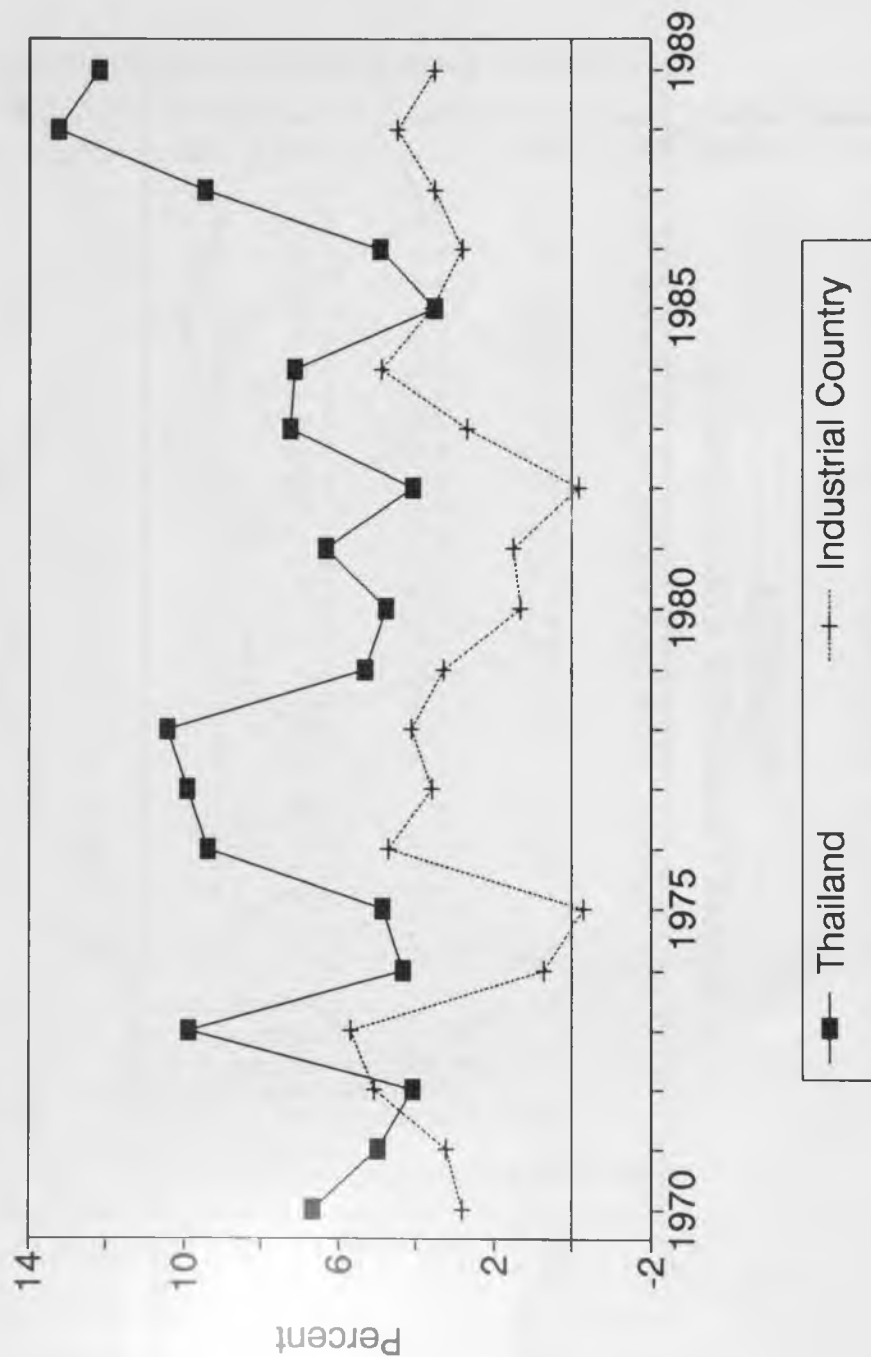


Figure 2.4  
Thai and World Inflation Rates

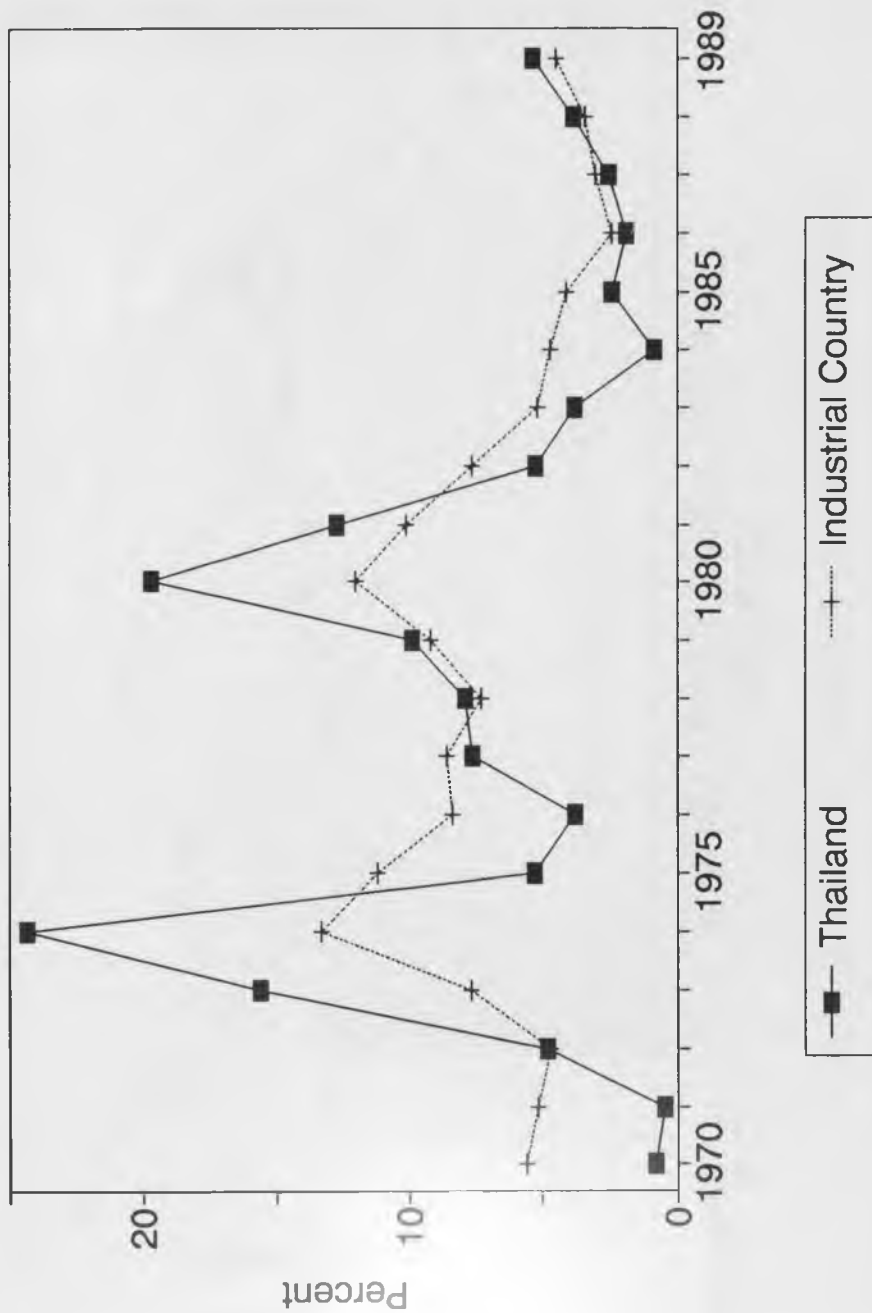


Figure 2.5  
Export Value of 5 Major Crops

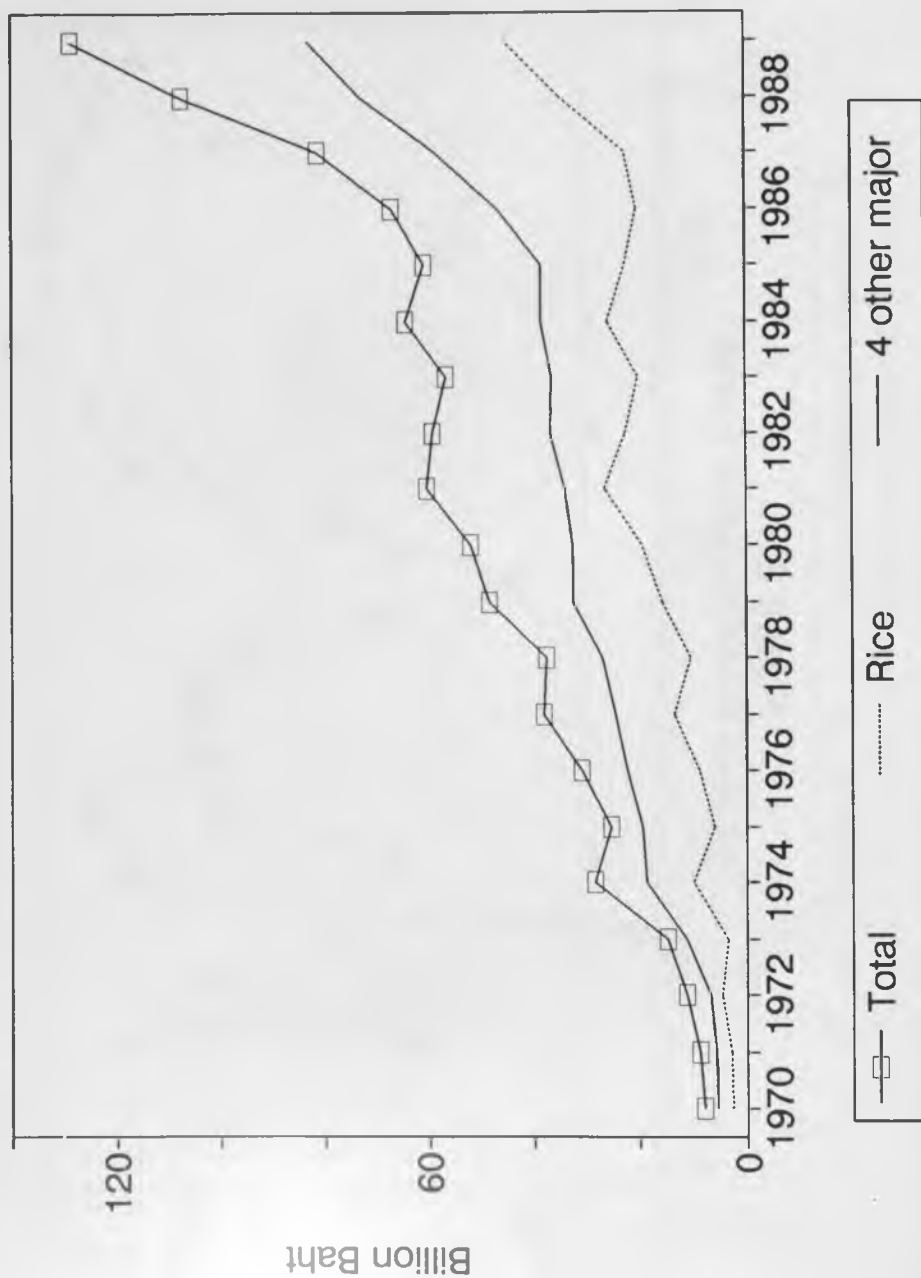


Figure 2.6  
Thai and Major Currency Value (per US\$)

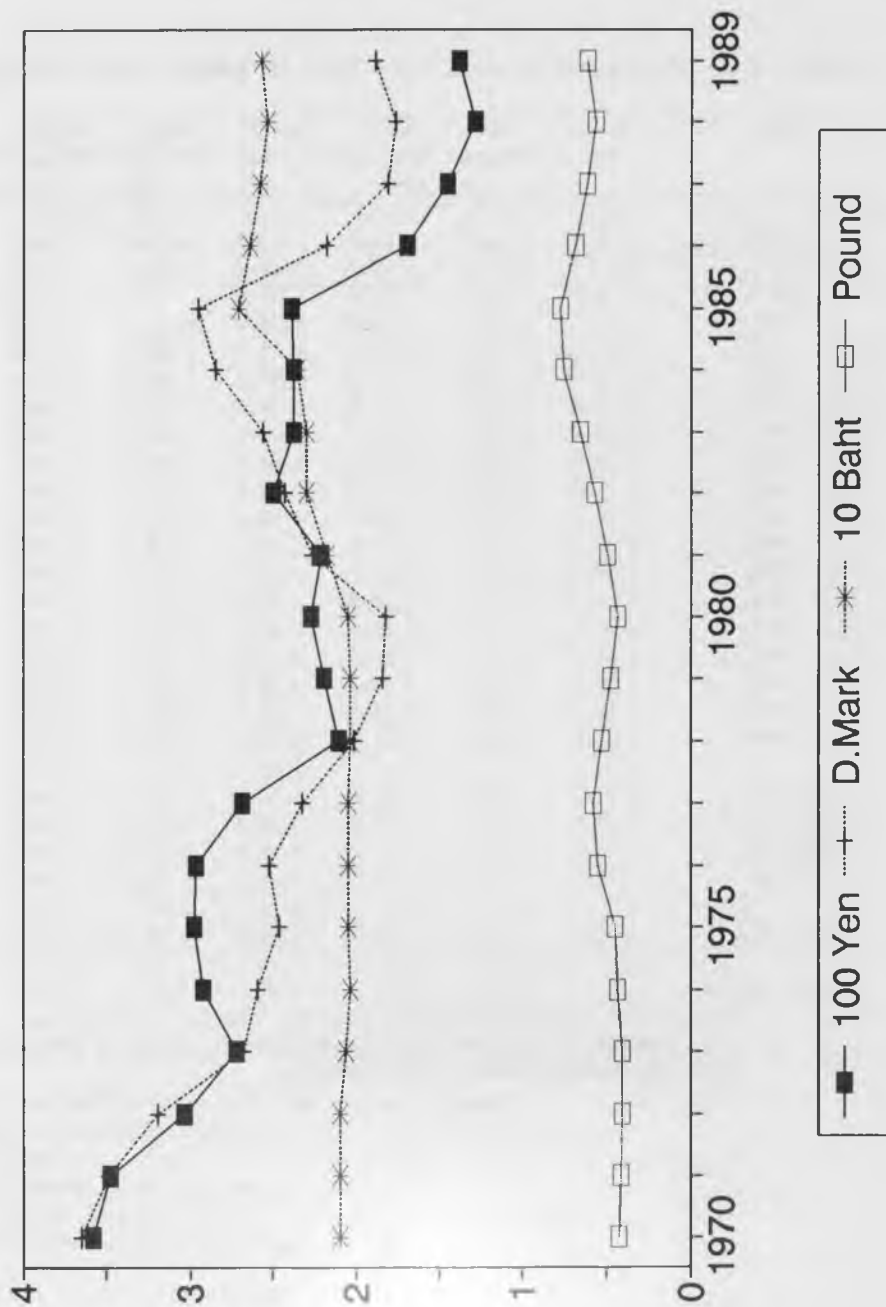


Table 3.1 Thailand's Real GDP Growth Rates (1971-1989)

Year	Total GDP	Agri- culture (1)	Manuf. (Total) (2+3+4)	Manuf. (agric) (2)	Manuf. (light) (3)	Manuf. (other) (4)	Other Industry (5)	Service (6)
1971	5.0	4.3	11.1	-0.9	18.0	18.0	11.1	3.2
1972	4.1	-1.7	13.2	5.8	12.2	20.3	4.8	4.9
1973	9.9	9.4	15.7	14.6	17.5	15.4	1.8	9.7
1974	4.4	2.9	6.2	13.8	5.3	1.2	5.1	5.2
1975	4.8	4.4	5.8	5.0	12.3	1.8	-0.6	5.2
1976	9.4	6.0	15.3	17.3	10.3	17.6	15.8	7.1
1977	9.9	2.3	14.3	11.6	10.8	19.2	19.4	10.2
1978	10.4	12.5	8.7	6.6	10.4	9.2	18.2	9.0
1979	5.3	-1.8	8.3	12.7	6.2	6.3	6.2	8.1
1980	4.8	1.7	2.9	-4.2	6.8	6.0	5.8	6.9
1981	6.3	5.4	6.3	8.8	5.3	5.1	2.9	7.1
1982	4.1	3.1	2.5	5.2	2.9	0.2	9.8	5.1
1983	7.3	4.4	8.4	4.4	7.0	12.7	3.9	7.9
1984	7.1	5.6	6.8	10.6	6.4	4.1	14.3	6.9
1985	3.5	6.2	-0.6	-0.4	3.5	-3.7	6.9	4.7
1986	4.9	0.3	10.8	4.8	13.5	13.7	4.9	5.0
1987	9.5	-0.2	13.3	5.4	16.1	17.3	10.0	11.1
1988	13.2	10.2	16.8	15.2	15.9	18.6	17.1	11.6
1989	12.2	6.3	14.7	11.4	14.0	17.4	19.9	11.0
1971-75	5.6	3.9	10.4	7.6	13.1	11.3	4.5	5.6
1976-80	8.0	4.1	9.9	8.8	8.9	11.7	13.1	8.2
1981-85	5.7	4.9	4.7	5.7	5.0	3.7	7.6	6.3
1986-89	10.0	4.1	13.9	9.2	14.9	16.7	13.0	9.7
1971-89	7.2	4.3	9.5	7.8	10.2	10.6	9.3	7.4

Source: NESDB.

Note: 1. Agricultural Manufactures includes food, tobacco, and beverage.

2. Light Manufacture includes textile and garment, leathers and products, woods and wooden products, and furnitures.

3. Other Industry includes mining, construction, and utilities.



Table 3.2 Thailand's Real GDP Share (1970-1989)

Year	Total GDP	Agri- culture (1)	Manuf. (Total) (2+3+4)	Manuf. (agric) (2)	Manuf. (light) (3)	Manuf. (other) (4)	Other Industry (5)	Total Industry (2+3+4+5)	Service (6)
1970	100.0	25.9	15.9	6.3	3.8	5.9	4.1	20.0	48.8
1971	100.0	23.9	17.6	6.2	4.6	6.8	4.3	21.8	49.1
1972	100.0	25.4	18.4	5.6	5.2	7.6	4.2	22.6	47.4
1973	100.0	27.7	19.2	5.6	5.9	7.7	3.5	22.7	45.5
1974	100.0	27.0	19.2	6.0	5.8	7.4	3.7	22.8	46.3
1975	100.0	26.9	18.7	5.8	5.8	7.1	3.3	22.0	47.3
1976	100.0	26.7	19.7	6.1	5.9	7.7	3.6	23.3	45.7
1977	100.0	24.8	20.2	6.0	5.9	8.3	4.3	24.5	45.9
1978	100.0	24.5	20.0	5.7	5.9	8.4	4.6	24.6	45.9
1979	100.0	24.0	21.0	5.5	6.4	9.1	4.5	25.5	45.6
1980	100.0	23.2	21.3	5.4	6.5	9.4	4.3	25.6	45.9
1981	100.0	21.4	22.3	6.7	6.3	9.3	4.3	26.6	47.0
1982	100.0	19.1	21.5	6.5	6.1	8.9	5.0	26.5	49.3
1983	100.0	20.4	21.4	5.9	6.0	9.5	4.8	26.1	48.2
1984	100.0	18.0	22.4	6.6	6.3	9.4	5.3	27.7	48.5
1985	100.0	16.7	22.1	6.6	6.6	8.9	6.3	28.4	49.2
1986	100.0	16.3	23.6	6.0	7.2	10.4	5.7	29.3	49.3
1987	100.0	16.4	23.9	5.5	8.1	10.3	5.6	29.5	48.9
1988	100.0	16.6	24.8	5.7	8.3	10.8	5.4	30.2	47.5
1989	100.0	15.2	25.4	5.7	8.4	11.3	5.8	31.2	47.0
1970-75	100.0	26.1	18.2	5.9	5.2	7.1	3.8	22.0	47.4
1976-80	100.0	24.6	20.4	5.7	6.1	8.6	4.2	24.7	45.8
1981-85	100.0	19.1	21.9	6.5	6.3	9.2	5.1	27.1	48.5
1986-89	100.0	16.1	24.4	5.7	8.0	10.7	5.6	30.0	48.2
1970-89	100.0	22.0	20.9	6.0	6.3	8.7	4.6	25.5	47.4

Source: National Economic and Social Development Board (NESDB).

Note: 1. Agricultural manufacture includes food, tobacco, and beverage.

2. Light Manufacture includes textile and garment, leathers and product, woods and wooden products, and furnitures.

3. Other industry includes mining, construction, and utilities.

4. Each period average share is simple average.

Figure 3.1  
Share in Real GDP 1970-1989

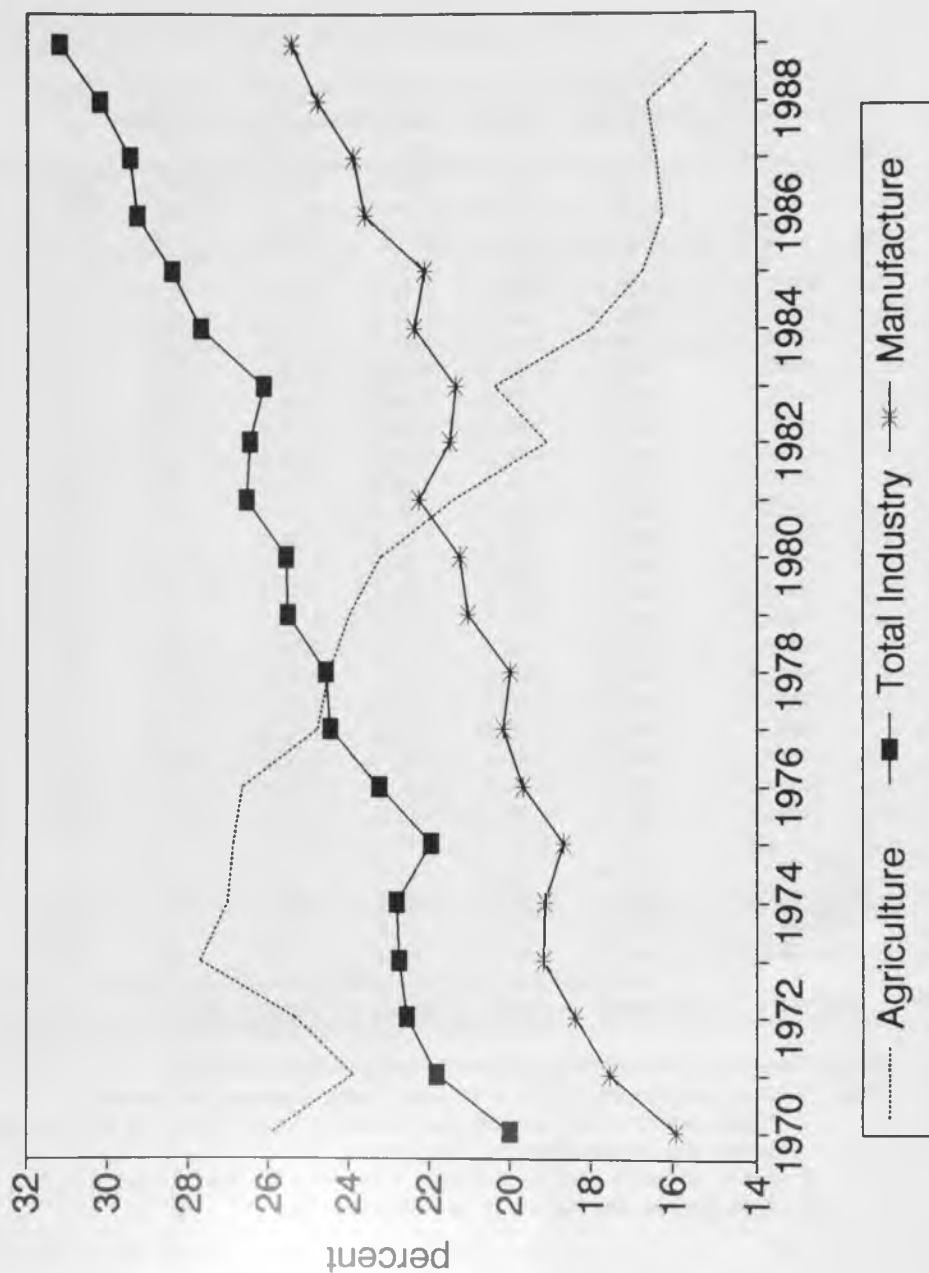


Figure 3.2  
Manufactured Export

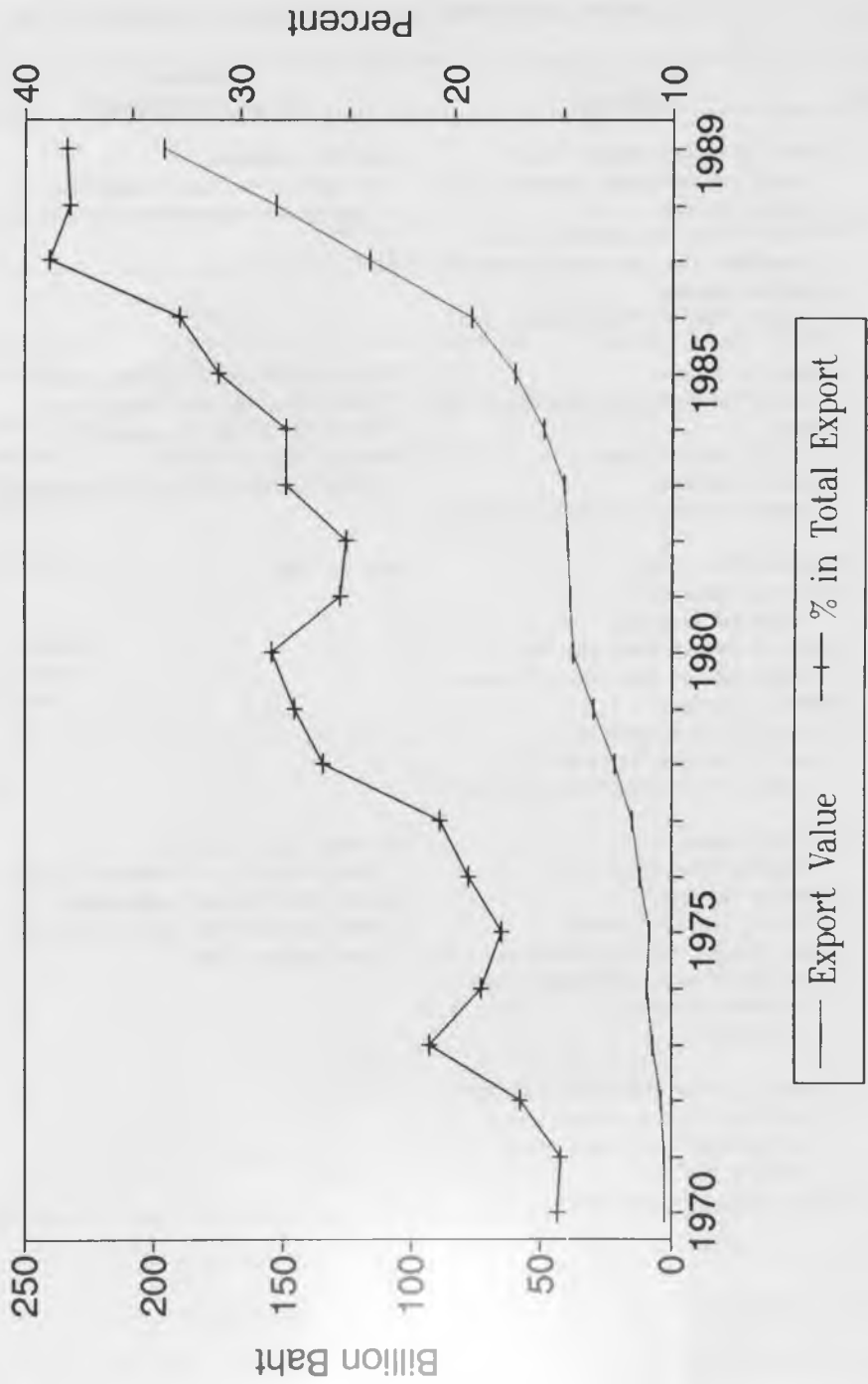


Table 3.3 Privileges provided by Industrial Promotion Acts in Thailand 1954-1977

Year enacted	Tax & Tariff Measures	Non-tax Protective Measures	Other Measures
1954	<p>Exempt or Reduce import tariff</p> <ul style="list-style-type: none"> <li>- Imported Machines, Raw Materials</li> </ul> <p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Profit Tax (in certain time)</li> <li>- Business Tax (in certain time)</li> </ul> <p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Export Tariff (in certain time)</li> </ul>	<p>Prohibit (general)</p> <ul style="list-style-type: none"> <li>- Establishing same industries</li> <li>- Imports of same products</li> </ul>	<p>Allow</p> <ul style="list-style-type: none"> <li>- Out remittance (general)</li> <li>- Immigrated Foreign Technicians</li> </ul>
1960	<p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Imported Machines, Raw Materials</li> </ul> <p>Exempt</p> <ul style="list-style-type: none"> <li>- Profit Tax (2 years)</li> </ul> <p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Export Tariff (in certain time)</li> </ul>	<p>Prohibit (announced by Minister)</p> <ul style="list-style-type: none"> <li>- Establishing same industries</li> <li>- Imports of same products</li> </ul> <p>Increase Import tariff</p> <ul style="list-style-type: none"> <li>- Same products as those protected</li> </ul>	<p>Allow</p> <ul style="list-style-type: none"> <li>- Out remittance</li> <li>- Immigrated Foreign Technicians including families</li> <li>- Land holdings in excess of regular laws</li> </ul>
1962	<p>Same as 1960, plus</p> <p>Exemt Business Tax</p> <ul style="list-style-type: none"> <li>- Imported Machines</li> </ul> <p>Exemt or Reduce Business Tax</p> <ul style="list-style-type: none"> <li>- Imported Raw Materials (5 years)</li> </ul> <p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Profit Tax (5 years)</li> </ul> <p>Exempt or Reduce Business Tax</p> <ul style="list-style-type: none"> <li>- Export by Producer(certain time)</li> </ul>	<p>Same as 1960</p>	<p>Same as 1960, plus</p> <p>Allow</p> <ul style="list-style-type: none"> <li>- Out repayment &amp; Interest on foreign loan</li> </ul>
1972	<p>Abolish Exempt on</p> <ul style="list-style-type: none"> <li>- Imported Raw Materials</li> </ul> <p>Exempt or Reduce</p> <ul style="list-style-type: none"> <li>- Profit Tax (3-8 years)</li> </ul> <p>Exempt import tariff &amp; business tax</p> <ul style="list-style-type: none"> <li>- Raw material &amp; components used in export products</li> <li>- re-export</li> </ul> <p>Allow</p> <ul style="list-style-type: none"> <li>- deduct 2% of increase in export earnings from previous year (promoted firms only) from taxable profit</li> </ul> <p>(others are same as 1962)</p>	<p>Increase Import tariff</p> <ul style="list-style-type: none"> <li>- Same products as those protected</li> </ul> <p>Special Fee (Cabinet approved)</p> <ul style="list-style-type: none"> <li>- Same products as those protected (not excess 50%)</li> </ul>	<p>Investment Promotion Zone:</p> <p>Same as normally promoted, plus</p> <ul style="list-style-type: none"> <li>- Reduce Import tariff, Business tax (up to 5 years) of imported material, components</li> <li>- 90 % reduction of business tax on sales</li> <li>- double deduction of costs on transport, electricicy, water</li> <li>- deduct from taxable profit by 25% of investment in infra-structures within 10 years of income from that investment.</li> <li>- 50% reduction of profit tax</li> </ul>

(to be continued to next page)

Table 3.3 (Continued)

Year enacted	Tax & Tariff Measures	Non-tax Protective Measures	Other Measures
1977	<p>Exempt again</p> <ul style="list-style-type: none"> <li>- Imported Materials, components (under certain circumstance)</li> </ul> <p>Allow</p> <ul style="list-style-type: none"> <li>- deduct accumulated losses from profit from taxable income</li> </ul> <p>Exempt tax on income from</p> <ul style="list-style-type: none"> <li>- Goodwill, Property rights</li> </ul> <p>Exempt tax on</p> <ul style="list-style-type: none"> <li>- dividends allotted by promoted firms</li> </ul> <p>Allow</p> <ul style="list-style-type: none"> <li>- deduct 5% of increase in export earnings from previous year (promoted firms only) from taxable profit</li> </ul>	<p>Prohibit</p> <ul style="list-style-type: none"> <li>- imports by government agencies those products protected</li> <li>- sales by government those products protected</li> </ul> <p>No price control on products under protection</p>	<p>Export zone:</p> <p>Same as those in 1972</p>

Source : Pranee Tinakorn [1987].

Figure 3.3  
Trade Balance by Sector

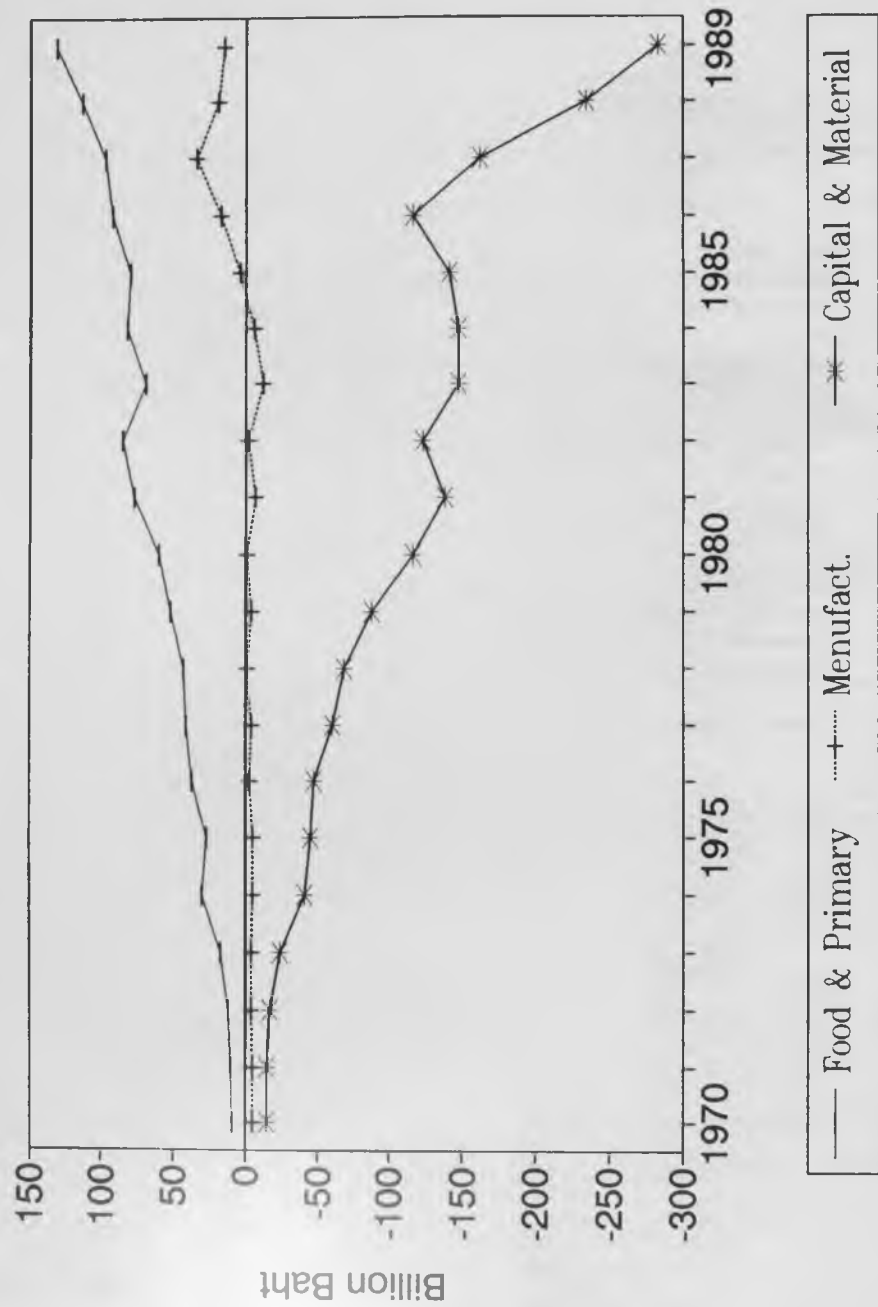


Table 4.1 Income Share by Population Quintile Group  
(% of total income)

Quintile	1975/76	1980/81	1985/86	1988/89
1-st	49.26	51.47	55.63	54.62
highest top 10%	33.40	35.44	39.15	37.50
second top 10%	15.86	16.04	16.48	17.13
2-nd	20.96	20.64	19.86	20.42
3-rd	14.00	13.38	12.09	12.31
4-th	9.73	9.10	7.87	8.07
5-th	6.05	5.41	4.55	4.56
second bottom 10%	3.62	3.28	2.75	2.78
lowest bottom 10%	2.43	2.13	1.80	1.78
total share	100.00	100.00	100.00	100.00
Gini Coefficient	0.426	0.453	0.500	0.489
Variance of logarithm of income	0.530	0.602	0.737	0.737

Source : Socio-Economic Surveys.

## Relaxation of Exchange Control

(Effective May 22, 1990)

Before relaxation	After relaxation
<b><u>1. Trade</u></b>	
Commercial banks were authorized to approve applications for most trade transactions, except for special arrangement for payments of goods.	Commercial banks were authorized to approve applications for all types of trade transactions.
<b><u>2. Services/Invisibles Payments</u></b>	
Commercial banks were authorized to sell foreign currencies for the following transactions:-	
2.1 Travelling allowances (including credit cards) of up to US\$ 4,500 per trip for a tourist and US\$ 9,000 per trip for a business man or a government official.	2.1 The amount was increased to US\$ 20,000 per trip for all purposes of travel.
2.2 Family allowances of foreigners working in Thailand and of Thai families on pilgrimage to Mecca of up to US\$ 5,000 per year per person.	2.2 The amount was increased to US\$ 50,000 per year.
2.3 Educational expenses abroad of up to US\$ 13,000-20,000 per year depending on the country.	2.3 The amount was increased to US\$ 50,000 per year.
2.4 Certain type of services payments which can be freely remitted without limit such as transportation fees, communication fees, licence fees copyright fees, royalties or patent fees to be paid under contracts etc.	2.4 Other payments, apart from which were previously delegated, in the amount of up to US\$ 50,000 per transaction against supporting documents.
<b><u>3. Unrequited transfers</u></b>	
3.1 Remittances of funds to families and relatives living abroad required prior approval.	3.1 Commercial banks were authorized to approve remittances of up to US\$ 100,000 per year per person.
3.2 Remittances of funds by emigrants or heritages of emigrants required prior approval.	3.2 Commercial banks were authorized to approve remittances of up to US\$ 1 million per year per person.



Annex 1 (continued)

Before relaxation

After relaxation

**4. Repayment of foreign loans that are not registered with the Bank of Thailand**

required prior approval by the Bank of Thailand.

Commercial banks were authorized to approve remittances of up to US\$ 500,000 per transaction.

**5. Remittance of proceeds from sales of securities or funds from liquidation**

required prior approval by the Bank of Thailand.

Commercial banks were authorized to approve remittances of up to US\$ 500,000 per transaction.

**6. Transfers of Baht into and from non-resident Baht account**

6.1 Transfer of Baht into "transferable" account required prior approval of the Bank of Thailand except for certain cases that had been previously delegated to commercial banks for approval.

6.1 Commercial banks are authorized to approve transfers of up to five million Baht per account per day.

6.2 Transfer of Baht from "Blocked" account for the purchase of foreign currency required prior approval.

6.2 Commercial banks are authorized to approve transfers of up to five million Baht per account per day.

## Exchange Regulation in Thailand

(Effective April 1, 1991)

### I. Exchange Regulations

#### a. Rules and Regulations

The legal basis for exchange restriction in Thailand is derived from the Exchange Control Act (B.E.2485) and the Ministerial Regulation No. 13 (B.E.2497) issued under the Exchange Control Act (B.E.2485). These laws set out the principles of controls under which, Notifications and Notices that prescribe the detailed procedures were issued.

#### b. Administration

The Bank of Thailand has been entrusted by the Ministry of Finance with the responsibility of administration of foreign exchange. All foreign exchange transactions are to be conducted through authorized bank. Authorized persons (money changers) only engage in the purchase of foreign notes and travellers' cheques and the selling of foreign notes.

#### c. Prescription of currency

There are not special requirement concerning the currency to be used for financial settlements with foreign countries, but payments are generally made in U.S. Dollars.

#### d. Currency Regulations

##### **1) Foreign Currency**

Persons living in Thailand are required to surrender foreign exchange received to an authorized bank or authorized person or to deposit the same in a foreign currency account within 15 days from the date of receipt. Travellers passing through Thailand, foreign embassies and international organizations are exempted from this rule.

Forward coverages, swaps and options are generally permitted between genuine traders and authorized banks.

##### **2) Local Currency**

There is no restriction on the amount of Thai currency that may be brought into the country. A person travelling to Thailand's bordering countries and to other countries may take out local currency up to Baht 100,000 and Baht 50,000 respectively without authorization.

### II. Bank Deposits

#### a. Foreign Currency Account

Thai individual and juristic person in Thailand are allowed to maintain foreign currency accounts under the following conditions :-

1) the accounts are opened with authorized banks in Thailand and with funds that originate from abroad.

2) the accounts may be withdrawn either for payments of normal business transactions to persons outside the country upon submission of supporting evidences or for conversion into Baht at authorized bank.

3) the total amount of daily outstanding balances in all account must not exceed US\$ 5 million for a juristic person and US\$ 500,000 for an individual.

#### **b. Nonresident Baht Account**

Nonresidents may open such accounts with any authorized banks in Thailand. Funds may be freely credited into the accounts but funds credited for the following settlements require prior approval from the Competent Officer:-

1) as payment for the purchase of immovable assets or securities abroad by residents.

2) as payment for investment or lending abroad by residents or for remittance to Thai emigrants living abroad in excess of the authorized amount.

No restriction is imposed on drawing fund from the accounts including conversion into foreign currency for remittance abroad.

### **III. Trade**

#### **a. Exports**

Exports are free from any exchange restriction, but export proceeds value exceeding Baht 500,000 must be collected within 180 days from the date of export and surrendered to an authorized bank or deposited in a foreign currency account with an authorized bank in Thailand within 15 days from the date of receipt.

#### **b. Imports**

Importers may freely purchase or draw foreign exchange from their own foreign currency accounts for import payments. Letter of credit may also be opened without authorization.

#### **c. Transactions on Invisibles**

All receipts from invisibles must be surrendered to authorized banks or deposited in a foreign currency account within 15 days from the date of receipt.

Payments for invisibles such as service fees related to foreign trade, educational expenses or family allowances abroad can be made freely.

### **IV. Foreign Tourists**

There is no restriction on the amount of foreign exchange and Thai currency that may be brought into the country.

Foreign visitors or persons in transit may freely take out of the country all foreign exchange which they had brought in without limit. However, they may not take out Thai currency exceeding Baht 50,000 per person except for trips to Thailand's bordering countries where an amount of up to Baht 100,000 per person is allowed.

Foreign currencies may be exchanged at any authorized banks, currency exchange services (operated by authorized banks) or authorized money changers. Banking hours are from 8.30 a.m. to 3.30 p.m. Monday to Friday except bank holidays. Currency exchange services open from 8.30 a.m. to 10.00 p.m. daily, while some authorized money changers open daily from 10.00 a.m. to 5 p.m. and beyond. Some offer 24 hour-service, mostly in hotels.

Credit cards are acceptable in major establishments in Thailand and may be used to obtain local currency at pre-arranged authorized bank or currency exchange services as well as at some automated tell machines.

## **V. Foreign Investments**

Foreign investors are allowed to invest through setting up of business or equity participation and invest in the Securities Exchange of Thailand. Foreign investments in Thailand which receive promotional privileges from the Board of Investment are accorded various incentives and special benefits.

There is no restriction on capital investment and foreign borrowing. Remittance of investment funds and foreign loans into Thailand are freely permitted without limit, but foreign exchange inflows in the form of capital and loan must be surrendered to authorized banks or deposited in foreign currency account within 15 days from the date of receipt.

Repatriation of investment funds, dividends and profits as well as loan repayments and interest payments thereon, net of all taxes, may be made freely.

Scarcities, promissory notes and bills of exchange may be sent abroad without restriction.

## **VI. Capital Transfers by Residents**

Foreign direct investments by residents or lending to their affiliated companies abroad for amount not exceeding US\$ 5 million per year do not require prior authorization. Beyond this amount, permission must be obtained from the Competent Officer. Remittances to Thai emigrants with permanent residence permits abroad are allowed up to US\$ 1 million a person yearly provided that funds derived from the emigrants' personal assets. Remittances of funds abroad between relatives are also allowed up to US\$ 100,000 per person yearly.

## **VII. Gold**

Residents may hold and trade domestically gold jewelry, gold coins and gold bullions. Import and export of gold other than jewelry are subject to licensing by the Ministry of Finance. Foreign tourists are freely allowed to take out gold ornaments.

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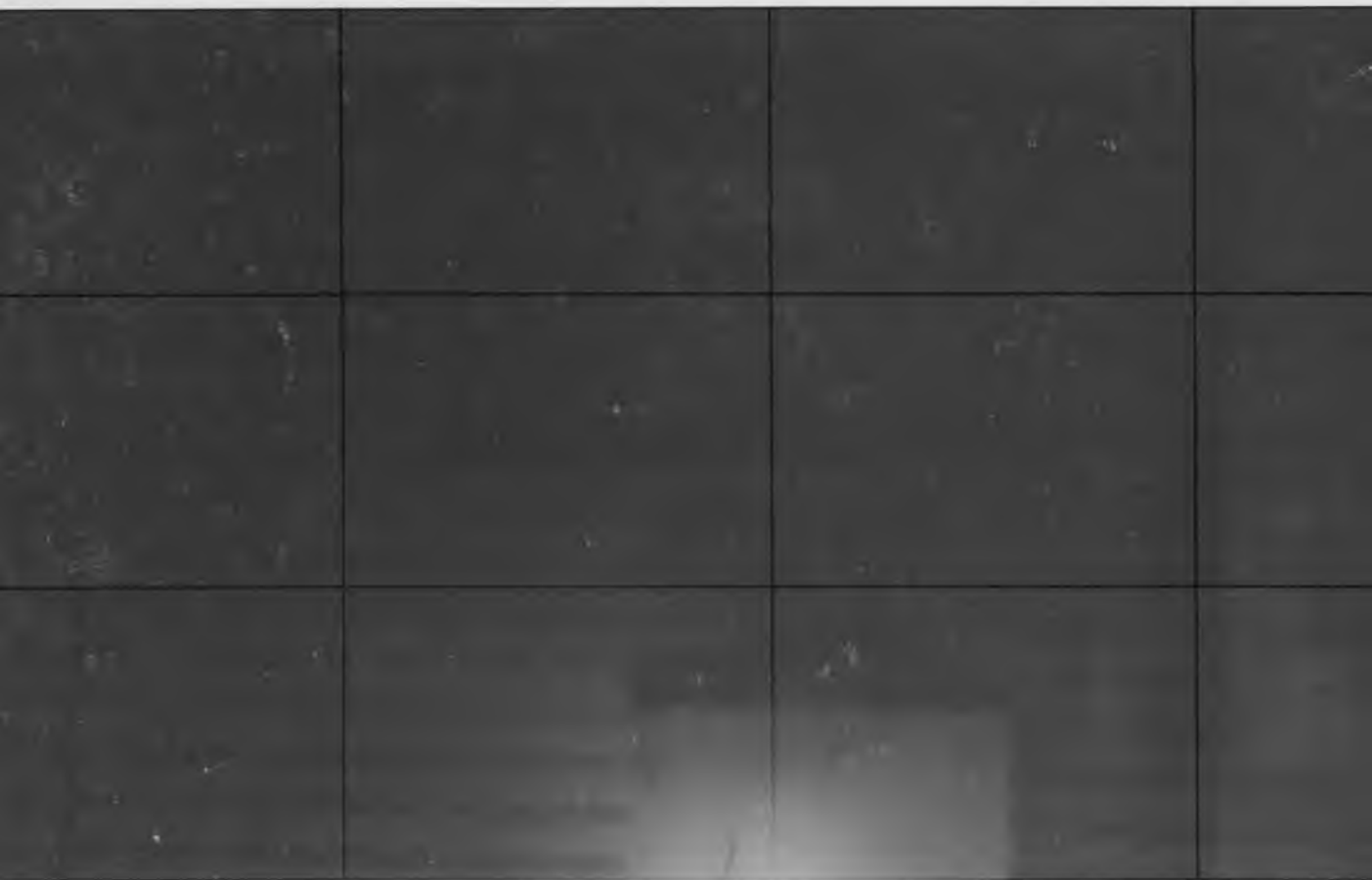


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